

CHARTER APPLICATION GUIDE

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DISCLAIMER

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OVERVIEW OF FEDERAL CREDIT UNIONS

A federal credit union is a member-owned and -controlled, not-for-profit, cooperative financial institution formed to provide its members with affordable and safe financial services.

The Federal Credit Union Act describes the basic structure and key characteristics governing federal credit unions:

- ▶ Membership is limited to a single group, or multiple groups, each defined in the credit union's charter, each of which has a common bond of occupation or association. A third option is forming a credit union based on a well-defined local community, neighborhood, or rural district.
- ▶ Member deposits into the credit union, otherwise known as shares, allow the members to become owners of the credit union with a right to run for election to become a credit union official, as well as vote for the credit union's officials and certain other credit union matters.
- ▶ Members exercise democratic control: each member has one vote, regardless of the number shares owned.
- ▶ Shares provide primary funding for the credit union's lending and investments.
- ▶ The credit union is governed by a board of directors elected by and from the credit union's membership. Board and other committee members serve on a volunteer basis and are charged with acting in the best interests of all members. Professional managers and staff may be compensated, but only one member of the board may be compensated as a board officer.

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Charter Application Introduction

This Federal Credit Union Charter Application Guide provides helpful information and recommendations for organizing groups to navigate the process of applying for a new federal credit union charter.

NCUA's CURE is responsible for the chartering process and issuing federal share insurance. If you have questions that are not answered in this Guide, please contact us at 703-518-1150 or at NewFCU@ncua.gov. You also may use this email address to request our assistance as you work through the application process.

This Guide provides general guidance and recommendations on submitting a successful federal credit union charter application. Each application is unique, and NCUA staff reviews all applications on their own merits under the relevant laws and regulations.

In some sections, the Guide cites or summarizes existing requirements of the application process, but does not create any new binding requirements or supersede any existing regulatory requirements, such as those in the agency's [Chartering and Field of Membership Manual](#) or the [Federal Credit Union Act](#). In instances where the Guide refers to regulatory requirements that apply to the chartering process, it will use words like "must." Similarly, the Guide will use words like "should" or "may" when it refers to actions NCUA recommends.

NCUA encourages organizers to review the agency's [Chartering and Field of Membership Manual](#) (NCUA regulations part 701, Appendix B), and the Federal Credit Union Act § 1753, [Federal credit union organization](#), for information about specific requirements needed for issuance of a federal charter. Existing state-chartered credit unions that wish to convert to a federal charter should refer to Chapter 4, Charter Conversions, of the Chartering and Field of Membership Manual for the required application forms and procedures.

There are two methods of submitting a federal charter application to NCUA.

The recommended method is to use the agency's [Consumer Access Process and Reporting Information System \(CAPRIS\)](#), which streamlines the process, allows agency staff to provide feedback as you work your way through it, and lets you complete the application and upload all supporting documentation securely.

The second method is completing and submitting the information or forms that are described in the Chartering and Field of Membership Manual by email at NewFCU@ncua.gov or through the U.S Mail service.

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Overview of the Charter Application Process

This Guide explains how to apply for a federal credit union charter with instructions on completing the required activities and forms associated with the three phases of the chartering process. This guide also provides links to examples and additional reference materials available on our website at [NCUA.gov](https://www.ncua.gov).

You should complete Phases 1 through 3 in the order listed, submitting the required documentation for each phase to NCUA for review and written feedback **before** proceeding to the next phase. For each phase, NCUA will review all documentation submitted and will let the organizing group know when to proceed to the next phase.

The charter application process consists of three phases:

- ▶ [Phase 1: Establishing a Field of Membership](#)
- ▶ [Phase 2: Preparing the Charter Application](#)
- ▶ [Phase 3: Submitting the Application Forms for Final NCUA Approval](#)

Follow the links above for an overview of each phase.

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Phase 1: Establishing a Field of Membership

Phase 1's main purpose is to establish a permissible field of membership. It is the first step in the charter application process, not the full charter application. The field of membership is who the proposed credit union desires to serve.

During this phase, NCUA will assign your proposed federal credit union to a Consumer Access Coordinator to work with you throughout the chartering process.

Additional activities in this phase include:

- ▶ Describing the [plan for obtaining donated capital](#) and the estimated amount of capital
- ▶ Gaining an understanding of NCUA regulations that govern credit unions
- ▶ Selecting a credit union name

For questions on the chartering process, please see [Frequently Asked Questions](#) for more information.

Note: NCUA strives to respond within 60 calendar days of the Phase 1 form submission date. NCUA will notify you in writing if the Phase 1 form is approved, and you can proceed to Phase 2.

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Phase 2: Preparing the Charter Application

The purpose of this phase is to demonstrate how the proposed credit union would be economically advisable. In addition, the applicant must provide details on how the proposed credit union will offer services and meet the needs of its members. You will begin this phase after NCUA approves your [Phase 1](#) form submission.

Activities in this phase include, but are not limited to:

- ▶ Identifying subscribers and credit union officials
- ▶ Developing and conducting a survey of your proposed federal credit union's potential membership
- ▶ Analyzing market conditions and determining start-up costs and sources of capital to cover those costs
- ▶ Developing a business plan
- ▶ Developing bylaws and policies

NCUA requires applicants to use [the Federal Credit Union Bylaws](#) approved by the NCUA Board. These bylaws give organizers a variety of options to select from to govern the proposed credit union. Bylaw amendments outside the scope of those already approved are rare and require NCUA's approval separately in accordance with NCUA regulations part 701, Appendix A, [Federal credit union Bylaws](#).

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Phase 3: Submitting the Application Forms for Final NCUA Approval

In this phase, you will complete and submit the final required regulatory forms for your charter application. CURE will review your submitted documentation and reach a preliminary determination on advancing the package for final approval. If approval is recommended, other applicable NCUA offices will be provided the documentation for review and concurrence with the recommendation.

Once approved, NCUA will meet with you to sign a letter of understanding and agreement. After the letter of understanding and agreement is signed, NCUA will issue your new federal credit union charter number and provide the related official chartering documents. NCUA will also assign your new federal credit union a District Examiner and a Supervisory Examiner.

See the [Frequently Asked Questions](#) for more information.

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PHASE 1: ESTABLISHING A FIELD OF MEMBERSHIP

Before You Begin

Phase 1's primary goal is to obtain preliminary approval of the requested field of membership and to describe the proposed federal credit union's capital funding plans.

Note: This is only Phase 1—it is not considered a full charter application.

Field of Membership

The field of membership is the common bond of the group or groups of people the proposed federal credit union intends to serve. It defines the people and entities eligible for membership, and only those people or entities—and a few others by virtue of their close relationship to members—may join the credit union.

Your application should identify which field of membership type you are planning to serve: single common bond (occupational or associational), multiple common bond (more than one group, each having a common bond of occupation or association), or a community. For example, a field of membership may be defined as, "Persons who live, worship, work in, or attend school in, and businesses and other legal entities located in Pima County, Arizona." NCUA will review each submission to determine whether the proposed field of membership meets regulatory requirements.

Capital Funding Plan

The actual costs for chartering and operating a federal credit union vary depending on the unique circumstances in which it plans to operate. Planned product and service offerings, the delivery mechanisms for products and services, staffing needs, and the proposed field of membership all factor into these costs.

Phase 1: Establishing a Field of Membership

Understanding the estimated operational costs will help organizing groups determine how much start-up capital is required to begin operations, cover initial losses until profitability, and establish a net worth cushion for unforeseen expenses.

Start-up funding in the form of donations and grants is critical to cover initial and ongoing costs until the credit union can achieve and sustain positive earnings and maintain an adequate capital position. Historical data suggest that newly chartered credit unions typically require at least \$500,000 in start-up capital to achieve economic viability.

At this preliminary stage, NCUA will review your general [plan for obtaining donated funds](#) to start operations and cover operating losses until you are profitable. NCUA will evaluate the adequacy of your capital plans in detail when you submit pro forma financial projections in Phase 2.

Submitting Phase 1 in CAPRIS

We strongly encourage you to complete Phase 1 using NCUA's CAPRIS by accessing it [here](#). NCUA will review your Phase 1 form submission, and if it meets all the agency's requirements, we will send you a letter with a preliminary approved field of membership and confirmation of the reserved credit union name. If there are deficiencies in your submission, NCUA will notify you and provide an opportunity to resubmit a revised Phase 1 form.

After you receive NCUA's letter granting preliminary approval of your field of membership, you can begin working on the Phase 2 application.

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Research How to Charter a Federal Credit Union

Before beginning the charter application process, NCUA recommends that you conduct extensive research into credit unions and the regulations that govern them. This guide is a useful resource to help you, and you can also refer to the following:

- ▶ NCUA's regulations, with particular attention to part 701, [Organization and Operation of Federal Credit Unions](#)
- ▶ NCUA's regulations part 701, Appendix B - [Chartering and Field of Membership Manual](#). Review Chapters 1 and 2, and if the proposed federal credit union plans to request a low-income designation or serve an underserved area as part of its multiple common bond charter, also review Chapter 3.

These resources will help you throughout the chartering process. They provide an overview of what a federal credit union is, detail the regulatory requirements for a federal credit union, and describe the operational requirements involved.

You should perform comprehensive due diligence before applying for a federal charter so you have a clear understanding of the duties and responsibilities required for charter approval and credit union operations.

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Select a Credit Union Name

Organizing groups will select a name for the proposed federal credit union and provide at least one alternative name in the event we are unable to reserve your first choice. NCUA will generally reserve a requested name provided it:

- ▶ Is not already being used by another federal credit union
- ▶ Includes "Federal Credit Union" as the last three words in the name
- ▶ Will not be confused with NCUA, another federal or state agency, or with another credit union
- ▶ Does not include misleading or inappropriate language

You can research and identify credit union names already in use using NCUA's [Research a Credit Union](#) search function. Type in your preferred name, and if there is no match, you can request the name be reserved for your use.

Once the agency has confirmed in writing that the name has been reserved for your use, you must notify us if the name changes.

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Choose a Field of Membership

As set forth in the Act and the Chartering and Field of Membership Manual, there are three types of federal credit union charters: single common bond (one occupational or associational group), multiple common bond (trade, industry, or professional groups), and community.

Every credit union must establish a field of membership that is permissible under law and regulation, and only persons or groups within it—plus a few others by virtue of their close relationship to a member—may join the credit union. For example, a member’s immediate family or household members may join the credit union. Other eligible groups, along with additional information on fields of membership, can be found in NCUA regulations part 701, Appendix B - [Chartering and Field of Membership Manual](#).

The following sections provide specific details about the three field of membership charter types:

- ▶ Section A—[Single Common Bond Charter](#)
- ▶ Section B—[Multiple Common Bond Charters](#)
- ▶ Section C—[Community Charter](#)

NCUA will provide preliminary approval of one of the three types of field of membership once you submit the required documentation. Information about qualifying for a low-income designation based on your proposed federal credit union’s field of membership is also outlined later in this chapter, along with the potential benefits of such a designation.

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Section A – Single Common Bond Charter

A single common bond can be occupational (employees of an entity or a trade, industry, or profession) or associational (members and employees of an association).

Documentation Required for Section A

In the field of membership section, identify the field of membership the proposed federal credit union wants to serve (select one of the options below), and upload the required documentation for your selection in CAPRIS.

- ▶ A.1—[Occupational Single Common Bond](#)
- ▶ A.2—[Trade, Industry, or Profession](#)
- ▶ A.3—[Associational Single Common Bond](#)

A.1 – Occupational Single Common Bond

An occupational single common bond charter can be established by persons who share an employment relationship with a single legal entity or several entities under common ownership. This charter could potentially serve employees of XYZ Company or, alternatively, employees of the XYZ Company and all the subsidiary companies of XYZ Company.

A.2 – Trade, Industry, or Profession

A trade, industry, or profession charter is a single occupational common bond based on employment in a trade, industry, or profession, which can include several legal entities that share a common purpose. Even though these entities are not under common ownership, they have a common bond by virtue of producing similar products, providing a similar service, or participating in the same type of business. For example, a trade, industry, or profession charter could potentially serve textile workers (a trade); employees of the healthcare industry, the airline industry, or in the federal government (an industry); or doctors, realtors, or teachers (a profession) located in a specific geographic area.

If you are requesting a trade, industry, or profession charter, include the following information in the field of membership section:

- ▶ Name of proposed trade, industry, or profession
- ▶ Number of employees in trade, industry, or profession with independent documentation to support the number
- ▶ Geographic area to be served

Phase 1: Establishing a Field of Membership

- ▶ Discussion of previously approved trade, industry, or profession by NCUA, if applicable
- ▶ Description of how membership eligibility will be verified, such as a pay stub, employment badge, and information provided by a human resources department.

The organizing group may consider requesting a previously approved trade, industry, or profession for its field of membership. Previously approved trade, industry, or profession field of memberships can be located on NCUA's website [here](#). For trade, industry, or professions not previously approved, the field of membership must be approved by NCUA.

Contact NewFCU@ncua.gov for assistance in developing your trade, industry, or profession field of membership.

A.3 – Associational Single Common Bond

An associational single common bond charter may include in its field of membership, regardless of location, all members and employees of a recognized association. The association's common bond consists of individuals and groups whose members participate in activities developing common loyalties, mutual benefits, and mutual interests. For example, this charter could potentially serve members and employees of one religious entity or, alternatively, members and employees from a group of religious entities within the same denomination. Other examples of associational based groups are labor unions, homeowner associations, and certain alumni groups.

A member-based group will not meet NCUA's associational common bond requirements if NCUA determines the association has been formed primarily for the purpose of obtaining credit union membership. Associations based primarily on a client-customer relationship—such as health clubs—do not meet NCUA's associational common bond requirements.

NCUA automatically approves the below groups as satisfying the associational common bond provisions. NCUA only approves regular members of an approved group. Honorary, affiliate, or non-regular members do not qualify. These groups are:

Phase 1: Establishing a Field of Membership

Alumni associations;

Religious organizations, including churches or groups of related churches;

Electric cooperatives;

Homeowner associations;

Labor unions;

Scouting groups;

Parent teacher associations (PTAs) organized at the local level to serve a single school district;

Chamber of commerce groups (members only and not employees of members);

Athletic booster clubs whose members have voting rights;

Fraternal organizations or civic groups with a mission of community service whose members have voting rights;

Organizations having a mission based on preserving or furthering the culture of a particular national or ethnic origin; and

Organizations promoting social interaction or educational initiatives among persons sharing a common occupational profession.

For associational groups that are not pre-approved, NCUA will consider the totality of circumstances in determining whether the group satisfies its associational common bond requirements.

Documents from the association should reflect whether it meets the following common bond requirements listed in Chapter 2, Section III.A.1 of the Chartering Manual, including:

- ▶ Whether the association provides opportunities for members to participate in the furtherance of the goals of the association
- ▶ Whether the association maintains a membership list
- ▶ Whether the association sponsors other activities
- ▶ Whether the association's membership eligibility requirements are authoritative

- ▶ Whether members pay dues
- ▶ Whether the members have voting rights (to meet this requirement, members need not vote directly for an officer, but may vote for a delegate who in turn represents the members' interests)
- ▶ The frequency of meetings
- ▶ Separateness—NCUA reviews whether there is corporate separateness between the group and the federal credit union. The group and the federal credit union must operate in a way that demonstrates the separate corporate existence of each entity. Specifically, this means the federal credit union's and the group's respective business transactions, accounts, and corporate records are not intermingled.

NCUA may also request a copy of the association's Bylaws, Articles of Incorporation, constitution, charter, or any other equivalent documentation supporting that it is a recognized entity.

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Section B - Multiple Common Bond Charters

As the name indicates, a multiple common bond charter serves multiple entities. Each entity has its own common bond, but each does not share the same single common bond with the other entities. For example, if a single common bond credit union adds a group that does not share the same single common bond as the original group, it will convert from an single common bond charter to an multiple common bond charter.

A multiple common bond credit union may be occupational or associational or have a combination of both occupational and associational groups. A multiple common bond charter with occupational and associational groups could potentially serve all these entities, for example: members and employees of a religious entity, employees of XYZ Company, members and employees of a labor union, and employees and students of ABC school district.

A multiple common bond charter serving occupational or associational groups, or a combination of these groups, can also add an underserved area to its field of membership. The Federal Credit Union Act defines an “underserved area” as

A “local community, neighborhood, or rural district” that

Meets the definition of an “Investment Area” under section 103(16) of the Community Development Banking and Financial Institutions Act of 1994 (“CDFI”), [12 U.S.C. 4702\(16\)](#), and

Is “underserved by other depository institutions” based on data of the NCUA Board and the federal banking agencies.

More information on Investment Areas can be found at www.cdfifund.gov.

Multiple Common Bond Service Area

Each of the multiple common bond groups must be located within the service area of one of the proposed federal credit union’s service facilities. Service area is generally defined in the Chartering and Field of Membership Manual as the area that can reasonably be served by the service facilities accessible to the groups within the field of membership.

Each group as a whole is within the service area when:

- ▶ A majority of the people in a select group live, work, or gather regularly within the service area. The group’s headquarters is located within the service area
- ▶ The group’s “paid from” or “supervised from” location is within the service area

Although “service area” is not defined by a specific distance in NCUA’s regulations, in most parts of the country, groups should generally be within a 25-mile radius of the anticipated service facility. NCUA generally uses this informal guideline but will consider whether the group meets the service area requirement on a case-by-case basis. Internet access to the proposed federal credit union is not sufficient support. Service area and service facilities are further defined in Chapter 2, Article IV.A.1 of the [Chartering Manual](#).

Documentation Required for Section B

In the field of membership section, identify the field of membership type(s) the proposed federal credit union wants to serve (select from the list below), and attach

the required documentation for your selection. If the field of membership will include a combination of occupational and associational groups and an underserved area, provide the information listed below in B.1, B.2, and B.3 applicable to each type of group.

- ▶ B.1—[Multiple Common Bond Charter, Occupational](#)
- ▶ B.2—[Multiple Common Bond Charter, Associational](#)
- ▶ B.3—[Multiple Common Bond Charter, Underserved Area](#)

Documentation for B.1 - Multiple Common Bond Charter - Occupational

- ▶ Identify each entity by name
- ▶ Provide a letter from an authorized representative of each entity, on its letterhead, stating it is interested in providing credit union access to the association's membership, including:
 - Number of current employees

If any single group being included has between 3,000 and 4,999 members, there are additional requirements. See NCUA regulation part 701, Appendix B - [Chartering and Field of Membership Manual](#), Section IV.B.3—Documentation Requirements, for details.

If any single group being included has 5,000 or more members, there are additional requirements. See NCUA regulation part 701, Appendix B - [Chartering and Field of Membership Manual](#), Section IV.B.3—Documentation Requirements, for details.

Physical address and telephone number of the entity

Distance (in miles) from the entity's physical address to the proposed federal credit union's service facility or shared branching location

Documentation for B.2 - Multiple Common Bond Charter - Associational

- ▶ Identify each entity by name
- ▶ Provide a letter from an authorized representative of each entity, on its letterhead, stating it is interested in providing credit union access to the association's membership, including:
 - Number of current members and the association's employees

If any single group being included has between 3,000 and 4,999 members, there are additional requirements. See NCUA regulation part 701, Appendix B - [Chartering and Field of Membership Manual](#), Section IV.B.3, for details.

If any single group being included has 5,000 or more members, there are additional requirements. See NCUA regulation part 701, Appendix B - [Chartering and Field of Membership Manual](#), Section IV.B.3, for details.
 - Physical address and telephone number of the association
 - Distance (in miles) from the association's physical address to the proposed federal credit union's service facility or shared branching location
- ▶ NCUA may also request a copy of the association's Bylaws and Articles of Incorporation, Constitution, Charter, or other equivalent documentation supporting that it is a recognized entity.

Documentation for B.3 - Multiple Common Bond Charter - Underserved Area

Only multiple common bond credit unions can add an underserved area. If an underserved area is being considered, NCUA is available to assist with determining whether an area meets the underserved area requirements. See Letter to Federal Credit Unions 21-federal credit union-03 Underserved Area Expansions for additional information.

Provide the following information about the underserved area:

Phase 1: Establishing a Field of Membership

- ▶ Name and/or a description of the underserved area (including the census tracts encompassing the requested area)
- ▶ Population of the underserved area
- ▶ CDFI Investment Area map obtained from www.cdfifund.gov/mapping-system demonstrating the requested area qualifies
- ▶ CDFI Investment Area Report obtained from www.cdfifund.gov/mapping-system showing how the requested area meets the investment area criteria
- ▶ Documentation supporting the proposed federal credit union meets the multiple common bond requirements for adding an underserved area:
 - Two or more occupational and/or associational groups are to be included in the proposed field of membership.
 - A service facility is in the underserved area or will be established and maintained in the area within two years—for more information, see NCUA regulation part 701, Appendix B - [Chartering and Field of Membership Manual](#), Chapter 3, Section III.F.
 - The requested area is underserved by other depository institutions as defined by NCUA regulations part 701, Appendix B - [Chartering and Field of Membership Manual](#), Chapter 3, III.B.3. Once a CDFI map and investment area report are obtained, organizers should contact CURE for assistance with computing a concentration of facilities ratio and satisfying this requirement.

A federal credit union that desires to include an underserved community in its field of membership must develop, and submit for approval, a business plan specifying how it will serve the community. In addition, the business plan must include a “significant unmet needs (SUN)” section as outlined in NCUA regulation part 701, Appendix B - [Chartering and Field of Membership Manual](#) Chapter 3,III.B.2.b.

Note: NCUA will evaluate the business plan requirements for an underserved area during Phase 2 of the charter application process.

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Section C - Community Charter

Community charters must be based on a single, geographically *well-defined local community*, neighborhood, or rural district.

To meet the well-defined local community requirement, a community charter-based proposed federal credit union must serve one of the following:

- ▶ Single political jurisdiction—A single political jurisdiction is a county or any contiguous portion thereof, such as a city or contiguous cities within one county, a neighborhood or contiguous neighborhoods within one county, or any contiguous geographic area(s) within one county (see section C.1)
- ▶ Statistical area—A statistical area is all, or an individual portion of a combined statistical area (CSA) or a core-based statistical area (CBSA) designated by the Office of Management and Budget, including a metropolitan statistical area. To meet the well-defined local community requirement, the CSA or CBSA, or a portion thereof, must be contiguous and have a population of 2.5 million or fewer people.
- ▶ In lieu of a statistical area defined above, compelling evidence of common interests or interaction may be provided for a well-defined local community. The area must be contiguous and demonstrate a sufficient level of common interests and interaction among area residents to be considered a local community. See Letters to Federal Credit Unions 21-FCU-01, [Community Charter Conversions and Expansions](#), and 18-FCU-02, [Requests to Serve a Well-Defined Local Community Using the Narrative Approach](#), for a discussion about demonstrating common interests or interaction and using the narrative approach. For statistical areas with multiple jurisdictions with populations greater than 2.5 million, NCUA would publish a notice in the Federal Register seeking comment from interested parties about the proposed community and conduct a public hearing about the application.

If NCUA has previously determined a specific geographic area is a well-defined local community, then an applicant may request to serve that exact area without having to reestablish it as a well-defined local community.

An area is considered a rural district if:

- ▶ The proposed district has well-defined, contiguous geographic boundaries
- ▶ The total population of the proposed district does not exceed 1 million

Phase 1: Establishing a Field of Membership

- ▶ Either more than 50 percent of the proposed district's population resides in census blocks or other geographic units that are designated as rural by either the Consumer Financial Protection Bureau or the United States Census Bureau, or the district has a population density of 100 persons or fewer per square mile
- ▶ The boundaries of the well-defined rural district do not exceed the outer boundaries of the states that are immediately contiguous to the state in which the credit union maintains its headquarters (not to exceed the outer perimeter of the layer of states immediately surrounding the headquarters state)

Documentation Required for Section C

In the field of membership section, identify the field of membership type the proposed federal credit union wants to serve (select either C.1 or C.2 defined below) and upload the required documentation for your selection as an attachment to the Phase 1 form submission.

Documentation for C.1 - Community Charter - Single Political Jurisdiction

- ▶ Name of the single political jurisdiction, such as Cook County, Illinois, or City of Manchester, New Hampshire
- ▶ Map of the political jurisdiction(s) with the proposed area outlined. If the area is not a township, borough, city, parish, or county, describe the outer boundaries of the area using roads, streets, and landmarks.
- ▶ Population of the community. In most cases, you can obtain this information from the U.S. Census Bureau.

Documentation for C.2 - Community Charter - Multiple Contiguous Political Jurisdictions or a Rural District

- ▶ Name of the multiple contiguous political jurisdictions, such as Benton and Franklin Counties, WA, or Kennewick-Richland-Pasco Metropolitan Statistical Area or rural district
- ▶ If the proposed community is defined by census tracts or census block groups, include a listing of tract or block numbers

Phase 1: Establishing a Field of Membership

- ▶ Population size of the community. The U.S. Census Bureau provides this information
- ▶ **If not previously approved by NCUA as a well-defined area:** Submit documentation showing how the community meets the statistical area or rural district criteria outlined [above](#). For additional questions or a better understanding of what is needed, contact NCUA
- ▶ **If previously approved by NCUA as a multiple contiguous political jurisdiction:** Provide the credit union name, location, and charter number that is currently serving this community. No other documentation is needed

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Describe Capital Funding Plans

You will need to describe your plan to obtain sufficient capital funding on the Phase 1 form submission. At this phase, a detailed description of the planned funding sources is sufficient. However, submission of commitment letters from some or all donors strengthens the support for the plan. If you do not submit commitment letters in Phase 1, in [Phase 2](#), you will need to submit those letters and donor commitments with proof of ability to fund donated capital.

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Understanding the Low-Income Designation Requirements

A credit union can be designated low-income when a majority of the new credit union's potential or actual membership qualifies as low-income. For more information about the benefits of this designation, definitions of low-income, how to qualify for the low-income designation (LID) as well as the methodologies used for submission and determinations see the [Low-Income Credit Union Designation](#) section of NCUA's website.

A proposed federal credit union can seek a low-income designation prior to chartering. If a majority of the proposed federal credit union's potential members are believed to be low-income members, you can request a LID when the preliminary field of membership approval is processed.

Note: If the potential members do not qualify for the designation when the proposed federal credit union's application is submitted, a credit union can request a LID after chartering, based on actual members, as detailed in NCUA's regulations, § 701.34, [Designation of Low Income Status](#).

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Frequently Asked Questions

How long does it take to charter a federal credit union?

Generally, an organizing group should expect a minimum of one year to complete the charter application process. NCUA strives to complete the chartering process and make a final decision within 180 calendar days upon receipt of a completed charter application. The complexity of the proposed federal credit union's business model and the time the organizers take to complete all three phases of the process, including providing all necessary documentation, are major factors affecting the timeline.

How much start-up and capital funding are needed?

The amount of necessary start-up and capital funding will depend upon the actual start-up costs, operating expenses, and asset size, among other elements, identified in the business plan and pro forma financial projections. These figures will be different for every proposed federal credit union.

When you are estimating how much funding you will need, consider using \$500,000 at a minimum, or \$100,000 per \$1 million if projected assets are greater than \$5 million during the first five years of the proposed federal credit union's operation. NCUA will use this informal guidance to generally evaluate the adequacy of your projected capital amount during the review of the business plan and financial

Phase 1: Establishing a Field of Membership

projections you submit in Phase 2. However, NCUA will consider whether your group meets the capital adequacy requirement on a case-by-case basis.

Funding, usually in the form of cash or in-kind donations, is necessary to cover the following:

- ▶ Start-up costs
- ▶ Net operating losses until the proposed federal credit union achieves positive net earnings
- ▶ The amount needed to achieve and maintain a well-capitalized capital position

The amount of funding necessary will vary depending on factors including:

- ▶ The initial services the proposed federal credit union plans to offer
- ▶ The costs related to providing services
- ▶ The anticipated level of risk in the business model
- ▶ The proposed operating structure

For example, more branches and services or higher-risk business plans often equate to a need for more funding. A higher-risk business plan might include complex products or services or high concentrations of certain loan products.

During Phase 2, business plan documents, including the pro forma financial statements, must be completed to assess capital adequacy. The pro forma financial statements should reflect that you can achieve a net worth ratio of at least 7 percent of total assets, the statutory definition of “well-capitalized,” over time. An example would be projections that show the net worth ratio increasing to a “well-capitalized” level within the projection period, which is typically at least three years, but could be extended over a longer time horizon if net worth growth is projected to be slower.

How does NCUA assist organizing groups?

NCUA assigns a Consumer Access Coordinator to work with an organizing group throughout the chartering process. The Coordinator can provide guidance, will

Phase 1: Establishing a Field of Membership

review all documentation submitted by the group, and provide feedback. However, the organizing group is responsible for submitting a complete application.

Once the new credit union is chartered, NCUA assigns a District Examiner and a Supervisory Examiner from the applicable NCUA regional office. The District Examiner will become the regular point-of-contact and will complete examinations and conduct other supervisory activities of the new federal credit union.

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PHASE 2: COMPLETING THE CHARTER APPLICATION

Note: Begin after NCUA notifies you Phase 1 is complete.

Once you have satisfactorily completed Phase 1 and NCUA has notified you that you can begin Phase 2, you will begin the pre-planning activities, business plan development, and drafting of bylaws and operating policies. Once the survey is completed in [Activity 1](#), the remaining activities can be worked on simultaneously. All documentation for the four activities in Phase 2 must be submitted by [email](#) to CURE at the same time.

Phase 2 includes the following activities:

- ▶ [Pre-Planning](#)
- ▶ [Developing a Business Plan](#)
- ▶ [Adopting Proposed Bylaws](#)
- ▶ [Drafting Proposed Policies](#)

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Activity 1: Conduct pre-planning Activities

The first activity of Phase 2 of the chartering process is to conduct pre-planning activities. These activities lay the foundation for the proposed credit union's charter application.

Survey and Analysis of Potential Membership

The membership survey is an important step in the chartering process. The data gathered from the survey will help you determine the level of interest in and support for the proposed federal credit union and better understand the specific financial needs of the membership, how they might use the credit union, and which

products and services to offer and when. The results of the membership survey drive the business plan and financial projections and support the reasonableness and achievability of the projected outcomes. The survey results must clearly indicate support for a new federal credit union and its proposed services.

Survey Recipients and Distribution

To ensure that the results captured from the survey provide an accurate view of the proposed federal credit union's potential membership and its needs, it is important to consider to whom and how your survey will be distributed. The [Conduct the Membership Survey](#) section covers this topic in more detail and provides an example illustrating how to obtain a statistically valid random sample.

Evidence of Member Support

The organizing group is responsible for describing and summarizing the membership survey results and analyses and detailing the financial services the membership needs. The [Summarize the Results](#) section covers this topic in more detail and provides an example illustrating a membership survey analysis.

Contents

This section provides more information about the following pre-planning activities:

- ▶ [Identify Subscribers](#)
- ▶ [Design the Membership Survey Form](#)
- ▶ [Conduct the Membership Survey](#)
- ▶ [Analyze the Survey Results](#)
- ▶ [Summarize the Result](#)
- ▶ [Conduct a Market Conditions Analysis](#)
- ▶ [Obtain and Document Sources of Donated Capital](#)

- ▶ [Provide Evidence of Sponsor Commitment if Critical to Success](#)
- ▶ [Establish Relationship with Mentors and Other Supporters](#)

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Identify Subscribers

Section 103 of the Federal Credit Union Act, 12 U.S.C. § 1753, [Federal credit union organization](#), defines subscribers as any seven or more natural persons who seek to form a federal credit union. Subscribers are responsible for preparing the charter application. A primary point of contact needs to be identified for NCUA during the chartering process. The primary point of contact may be a subscriber or professional organizer hired or appointed by the subscribers. The function of an organizer is to provide direction, guidance, and advice to the subscribers.

Under section 104 of the Federal Credit Union Act, 12 U.S.C. § 1754, [Approval or organization certificate](#), subscribers need to undergo an “appropriate investigation” to determine “the general character and fitness of the subscribers thereto.” Officials and senior management employees also are required to undergo an investigation. The officials and senior management employees must complete a [Report of Official and Agreement to Serve NCUA 4012](#) form, which will be submitted in [Phase 3](#).

Documentation Required to Identify Subscribers

- ▶ The names and contact information for each subscriber will be included in the Phase 2 application. Their anticipated involvement and contribution to the chartering process, including time commitment (number of hours per month) will also be documented on form NCUA 4001, [Federal Credit Union Investigation Report](#).
- ▶ Subscribers who also plan to serve on the board, supervisory committee, or credit committee (this committee is optional) or as senior management will be required to complete NCUA 4012 form. This form will be submitted in [Phase 3](#).
- ▶ If at any time a subscriber is added or deleted, notify NCUA of the change immediately

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Design the Membership Survey Form

Each proposed federal credit union organizing group should design a membership survey form that gathers enough information to aid in developing and supporting the products and services set forth in the business plan along with pro forma financial projections and related assumptions. A membership survey needs, for example, to gather such information to:

- ▶ Gauge the level of interest in the proposed federal credit union
- ▶ Determine the number of individuals willing to join the credit union immediately after it is chartered
- ▶ Determine the amount of initial deposits you can expect as well as the amount of monthly deposits thereafter (without this information, you will be unable to create reasonable financial projections)
- ▶ Establish the types of products and services needed
- ▶ Determine the types of products and services to offer and when to offer them
- ▶ Decide what the proposed federal credit union office hours will be
- ▶ Recruit volunteers to serve as officials and on committees

A sample of a simple membership survey and cover letter that proposed federal credit unions can use to customize a survey to meet their needs is found [here](#).

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Conduct the Membership Survey

Who Should Receive the Survey

After developing the survey form, the next step is to conduct the survey. Ideally, you would survey all persons within the field of membership, which may be possible for smaller groups. However, for larger groups, and to control pre-chartering costs, it is likely more reasonable to survey a random sample of the potential membership. Surveys can be delivered electronically, by mail, or in person.

How to Perform a Random Survey

There are two types of sampling for a random survey: a statistically valid sample and a targeted sample.

A statistically valid random sample contains two key components:

- ▶ Every individual within the field of membership must have an equal chance of being selected; and
- ▶ The number of responses must be a fair representation of the entire field of membership.

How to Ensure Equal Chance for Selection

A simple statistically valid random sample involves surveying every n th person from a list of potential members. However, such a selection method is not required. You may survey the membership using other forms of random sampling. Examples of other forms of statistically valid random samples are illustrated as follows:

- ▶ If the field of membership consists of members of five religious entities, offering the survey form to all attendees at all five religious entities on a given day would be considered statistically valid random sampling. If you only survey the members of one of the five religious entities or limit the survey to a selected demographic group (for example, those under the age of 25 or those with children), it would not be considered a statistically valid random sample.
- ▶ If the field of membership consists of a community charter, conducting the survey at several different locations throughout the community would be considered statistically valid random sampling. However, if only one segment of the community or one geographic area (such as one city in a county) was surveyed, and not all segments of the community or various geographic areas had an opportunity to receive the survey, the distribution would not be deemed a statistically valid random sample.

A targeted random sample does not contain the two key components found in a statistically valid sample and a specific number of responses is not required.

Due to these shortcomings, the results from a targeted random sample cannot be extrapolated and applied to the entire field of membership population. For this reason, in most cases, the assumptions in the business plan and pro forma financial

projections are better supported using data from the statistically valid random sample method.

The following example illustrates the differences in applying the results of a statistically valid random sample survey compared to a targeted random sample.

Regardless of whether a survey is conducted based on a statistically valid random sample or a targeted random sample, it is inappropriate to survey only those individuals you assume are interested in joining the credit union while excluding others within the field of membership. That is not a random sample and the survey results and all data gathered from the survey would be unreliable and considered a weak foundation for developing a business plan and financial projections.

Example: Assume the field of membership population is 5,000; surveys are sent to 1,000 random individuals; and 500 individuals responded to the survey. Out of the 500 responses, 150, or 30 percent, expressed an interest in joining the credit union within its first two years of operation.

If the results of the 150 were based on a statistically valid sample, you could extrapolate the 30 percent favorable response rate (150/500) and apply it to the entire field of membership population. You can assume approximately 1,500, or 30 percent of the 5,000 individuals in the population, would be interested in joining the credit union within its first two years of operation. The two-year annual growth projections in the pro forma financial projections could then be developed with this in mind. For example, the projected new members for year one and year two could be 500 and 1,000, respectively, resulting in total new members after two years of 1,500.

Before performing a survey, contact NCUA if you have questions about whether your random sampling method is proper, particularly if it does not include every individual in the potential membership. All random sampling methods must be explained in detail in the proposed federal credit union application, and if NCUA determines a random sampling method improper, we will require a new survey.

How to Determine the Number of Responses Required

The next factor to consider when conducting a statistically valid random sample of the potential membership is the number of survey responses you must receive to adequately predict the preferences of the potential membership. The number of required survey responses will vary depending on the size of the population. You may use the table below to determine the number of responses needed based on the number of total potential members, also known as the population size. The table uses a 95 percent confidence level and a 5 percent confidence interval.

Note: The confidence level tells you how sure you can be of the results. It is expressed as a percentage and represents how often the population would pick an answer that lies within the confidence interval. The 95 percent confidence level means you can be 95 percent certain.

Note: The confidence interval (also called the margin of error) is the plus-or-minus figure usually reported in newspaper or television opinion poll results. For example, if you use a confidence interval of 5, and 47 percent of your sample picks an answer, you can be relatively certain that for the entire relevant population between 42 percent (47 minus 5) and 52 percent (47 plus 5) would have picked that answer.

For example, if the proposed federal credit union’s potential membership is 5,000 members, you must receive 357 responses to the membership survey to adequately predict the preferences of the entire potential membership.

Number of Responses Needed

| Population Size | Number of Responses Needed |
|------------------------|-----------------------------------|
| | |
| | |
| | |
| | |
| | |

The proposed federal credit union should use this table when completing either a statistically valid random sample or a targeted random sample.

How to Determine the Number of Surveys to Distribute

How will you know how many surveys to send out to receive the required number of responses? It is highly unlikely that you will receive a 100-percent response rate to the membership survey. Thus, the final factor to consider when conducting a random sample of the potential membership is the anticipated response rate from the sample of members. The organizing group must use judgment in estimating the survey response rate, as it will differ for each potential field of membership.

In the previous example, if you estimate 40 percent of those who receive the survey will respond, you must send out 893 surveys in order to receive 357 survey responses (357 being 40 percent of 893). If a low response rate is anticipated, consider surveying a larger number of potential members to ensure you get an adequate number of responses.

The number of surveys to send to achieve the required number of survey responses is calculated by dividing the number of required responses by the estimated response rate.

proposed federal credit unions should be aware a low response rate may be an indication the potential membership is not supportive of a new federal credit union. If a low actual response rate is experienced, the proposed federal credit union should be able to provide reason(s) why the potential membership is not being responsive to the survey.

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Analyze the Survey Results

Once you receive the survey responses, you must tally and analyze the results. If you follow the preceding guidance on how to conduct a statistically valid random sample, you may use the results to predict the preferences of the entire potential

membership. Using the previous example, if you received 357 responses to your survey, you may extrapolate the results to the entire potential membership of 5,000 members.

For this example, suppose 30 percent of the survey respondents indicated they would join the credit union within the first two years. If this were the case, you have support to anticipate a membership base of approximately 1,500 ($5,000 \times 30$ percent) members at the end of year two. However, the statistical calculation assumes an error rate of plus or minus 5 percent; thus, the estimated membership base must reflect a range of 1,250 ($5,000 \times 25$ percent) members and 1,750 ($5,000 \times 35$ percent) members. These numbers can be viewed potentially as the “best case scenario” (1,750 members) and potentially as the “most likely scenario” (1,250).

Based on NCUA's experience, new credit unions do not generally achieve the “best-case scenario.” Due to several factors, including the length of time between conducting the survey and receipt of a credit union charter, not all persons who express an interest in joining actually join the new credit union. Therefore, NCUA highly recommends developing a business plan and financial projections using the “most likely scenario” assumptions. You can present other scenarios if you can provide sound statistical support.

When a larger potential membership base is involved you need to use judgment about whether those results based on the larger potential membership base are attainable. If deemed unattainable, assumptions should be modified accordingly and documented.

For example, if the 30-percent response rate used earlier for joining the credit union within two years was applied to a potential membership of 500,000, the result would be 150,000 individuals might join the credit union after two years. A review of membership growth at existing credit unions does not support a new federal credit union could add 75,000 net new members a year on average, as existing credit unions are not even able to do this.

If your proposed federal credit union has a larger potential field of membership, you will need to evaluate the results and determine whether their conclusions are reasonable and attainable. More than likely, you will need to make adjustments and calculate assumptions on information more in line with newly chartered and existing credit unions.

You can review financial information from [5300 Call Report and Financial Performance Reports](#) here on newly chartered and other existing credit unions to help establish realistic assumptions. Mentor credit unions can also assist with feedback regarding reasonable and realistic projections and assumptions.

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Summarize the Results

At a minimum, summarize the survey results using the format shown below. Include the responses for each survey question.

Format for Summarizing Results

| Description | Amount |
|--------------------|---------------|
| | |
| | |
| | |
| | |
| | |
| | |
| | |

Prepare a narrative discussing the survey results. For example, Table 1 shows the survey results indicate 10 percent of the individuals surveyed responded (357/3,570). Of those responding, 30 percent were in favor of supporting the proposed federal credit union (107/357). Of those supporting the credit union, 85 percent pledged an initial share deposit (91/107) and 66 percent pledged systematic monthly share deposits (70/107). Based on the average initial and monthly pledged deposits, initial share deposits could total \$338,247 ($\$3,717 \times 91$), with new deposits averaging \$21,000 ($\300×70) each month, thereafter.

When extrapolating these results into the share deposit projections on the pro forma balance sheet, you will need to apply an estimated retention rate for the

deposits. For example, with \$338,247 in initial deposits, and \$21,000 in monthly deposits for the next five months, the total potential deposit base could be \$443,247 ($\$338,247 + (\$21,000 \times 5)$), but a 25 percent retention rate for the monthly deposits would produce only \$364,497 ($\$338,247 + (\$21,000 \times 5 \times 25 \text{ percent})$) in share balances at the end of the six-month period. The pro forma balance sheets should reflect these deposits. Similarly, the loan projections should consider both new loan originations and loan run-off due to payments, early payoff, and charge-offs.

Keep in mind NCUA relies heavily on your written analysis of the survey results to obtain a better understanding of the basis and content of the business plan, projections, and assumptions.

Survey Documentation Required

- ▶ Include the following membership survey information. NCUA recommends keeping survey forms available for review, if necessary:
 - Tally of the membership survey results (do not submit the completed individual survey forms to NCUA unless requested);
 - Written analysis of the membership survey results;
 - Blank copy of the membership survey form;
 - Written explanation of how the membership survey form was distributed; and
 - Written explanation of the random sample process used to select who received a survey form.

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Conduct a Market Conditions Analysis

The analysis of market conditions should include geographic, demographic, employment, income, housing, and other economic data. At a minimum, the analysis should answer the following questions:

- ▶ What financial services and service providers are available to the membership? For example, identify the number of credit unions, banks, savings and loan institutions, check cashing facilities, pawn shops, and/or other alternative financial institutions available.
- ▶ What type of products do the financial providers offer or not offer?
- ▶ What is the economic condition of the membership? For example, is the sponsor company growing or downsizing, or is the community considered affluent or low income?
- ▶ What is the need for a credit union?
- ▶ Who will be the proposed federal credit union's competitors, and how will the proposed federal credit union compete?

The data and analysis performed on the market generally helps the organizing group develop the proposed federal credit union's business plan, marketing plan, projections, and assumptions.

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Obtain and Document Sources of Donated Capital

Chartering and operating a credit union costs money. A credit union must remain solvent, meaning it must always maintain a positive capital position. New credit unions seldom generate sufficient income to cover operating expenses in the beginning. Therefore, you must seek monetary donations or subsidies to cover start-up and operating costs for the initial years of operation.

Obtaining Donated Capital

If your proposed federal credit union group is unable to secure adequate funding, consider requesting services from an existing credit union. You can locate an existing local credit union on NCUA website. NCUA can also assist with locating an existing credit union.

Types of support proposed federal credit unions generally receive include donations of:

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- ▶ Cash
- ▶ In-kind support, including office space, furniture and equipment, computers and recordkeeping software, and utilities

Support, subsidies, or donations for a proposed federal credit union may come from:

- ▶ Credit union industry participants, such as vendors, associations and mentors;
- ▶ Community organizations, such as religious organizations;
- ▶ Sponsoring organization, a company, or an association;
- ▶ Non-profit organizations, such as an economic development corporation; and
- ▶ Other grant programs, such as the Community Development Financial Institutions Fund.

Example: If a sponsor company offers to provide office space free of charge and to donate \$200,000 to cover start-up costs, the organizer's letter should indicate the office location, the term (for example, the first 36 months of operations), and the size (such as, 1,100 square feet) of the free office space, and state whether they are also subsidizing ongoing costs, such as electricity, telephone service, trash removal, cleaning, security, or grounds maintenance.

Initial commitments or the concept of the plan to obtain commitments for donated funds are identified in Phase 1. If all pledges are not in writing at that time, the commitment letters must be obtained during Phase 2 and must be supported by the donor's clear ability to provide the pledged support.

- ▶ If funds are committed but not received, obtain a commitment letter signed by the donor, who must have authority to commit and provide the funds; and financial statements, a bank statement, or other documentation of the donor's ability to fund the committed amount.
- ▶ If funds have been received, provide a bank statement reflecting the deposit of funds and acknowledgement letter signed by donor confirming the funds are donations to the credit union, and not an investment or deposit. There must be no expectation of donated funds being repaid.

Any commitments that would require repayment are considered borrowings, not donated equity. As such, they cannot be counted towards the equity position of the proposed federal credit union's pro forma financial projections. Subordinated debt is only available to low-income-designated credit unions after they are chartered. As such, subordinated debt can be considered by your organizing group as a strategic goal once your operation commences, but it cannot be included in your pro forma financial statements as donated capital for purposes of applying for a charter. See NCUA's regulations part 702, Subpart D, [Subordinated Debt, Grandfathered Secondary Capital, and Regulatory Capital](#), for additional information and requirements for subordinated debt.

All commitments pledged must be in writing from their source and include the specific commitment and its terms. A sample commitment letter is found [here](#).

Documentation Required for Donated Capital

Identify the source of your funding and the actions and steps taken by the organizing group to obtain the necessary funds to cover the proposed federal credit union's start-up costs and operations until the proposed federal credit union can become profitable. Provide details on the nature, terms, and conditions of all contributions, cash, non-member deposits, or other assistance provided to the proposed federal credit union. Any financial benchmarks for the proposed federal credit union that are tied to the commitment(s) or the repayment(s) should be discussed as well.

Obtain the commitment in writing from the funding source and ensure the letter contains the following details regarding the commitment:

- ▶ Name of the person or entity making the commitment;
- ▶ Amount and timing of donations; and
- ▶ A statement acknowledging the funds are donated, with no expectation of repayment.

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Provide Evidence of Sponsor Commitment if Critical to Success

This section applies to each of the three types of field of membership. A sponsor is any person or entity that is providing resources or support to the credit union. If a sponsor is going to provide resources and/or support to the credit union that are not cash or in-kind capital donations discussed in the previous paragraph, and that sponsorship is critical to the credit union's success, documentation must be provided detailing the type and amount of support (for example, access to potential members at work or in the community, support of credit union marketing in entity newsletters or mailers) and the length of time the support will be provided.

Provide copies of commitment letters to NCUA if they were not uploaded with the Phase 1 submission.

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Establish Relationships With Mentors and Other Supporters

NCUA strongly recommends the organizing group establish mentor relationships with one or more existing credit unions and seek out other assistance in and outside the credit union industry. These relationships have proven to be beneficial to organizing groups going through the chartering process and during the first years of operation. A list of the available resources is shown below, followed by some information on each resource and a note on the documentation requirements.

- ▶ [Mentor Credit Unions](#)
- ▶ [Sponsors](#)
- ▶ [Individuals](#)
- ▶ [Credit union leagues or associations](#)
- ▶ [Corporate credit unions](#)

- ▶ [Other credit-union-affiliated organizations](#)
- ▶ [Banks](#)
- ▶ [Other government entities](#)
- ▶ [Documentation Required for Established Mentor and Other Supporter Relationships](#)

Mentor Credit Unions

A mentor credit union is typically an established, financially sound, well-managed credit union whose assistance can be invaluable in helping you develop a successful business plan and pro forma financial statements. Ideally, seek out a credit union mentor with the same field of membership type as the proposed federal credit union. It is helpful to establish a mentor relationship with another well-managed credit union that uses the same data processing system. You can research existing credit unions [here](#).

Mentor credit unions may offer to:

- ▶ Assign an individual executive or staff member to assist the organizer and subscribers;
- ▶ Answer questions and provide direction and guidance;
- ▶ Attend organizer meetings and/or board meetings after chartering;
- ▶ Assist and educate subscribers, organizers, and staff in understanding what it takes to start-up and run the daily operations, the processes involved, and necessary costs;
- ▶ Review or assist with developing reasonable assumptions for the pro forma financial projections;
- ▶ Provide sample policies and procedures or assistance in reviewing the drafts;
- ▶ Assist in resolving application deficiencies, including, for example, a business plan, financial statement projections, marketing development, or policies;
- ▶ Train staff and officials (such as directors, supervisory committee members, and credit committee members) on their specific duties and responsibilities;

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- ▶ Train staff on the mentor's data processing system (if the same system is to be used by the proposed federal credit union);
- ▶ Identify reputable vendors serving the industry for proposed products and services;
- ▶ Assist in negotiating contracts;
- ▶ Provide office space, fixed assets, or back-office support at low or no-cost;
- ▶ Subsidize operating expenses; or
- ▶ Make a low or no-cost non-member deposit.

Best practices for building a strong credit union mentor relationship include:

- ▶ Identify goals and objectives (such as a timeline for accomplishing specific steps);
- ▶ Identify the amount of time the subscribers and/or organizers will be able to commit to each step and the type and time of estimated assistance needed;
- ▶ Identify a method for keeping mentors updated on progress (such as weekly calls, monthly meetings, and similar activities);
- ▶ Select the subscribers, organizers, officials, or staff whose experience will most effectively complement the mentoring goals and objectives; and
- ▶ Document each party's role, the expected outcome, and timeframe.

After a mentor relationship has been established, it is important the proposed federal credit union obtain a written acknowledgment. Often mentors are volunteering time and resources, and a written acknowledgment letter will provide evidence of the mentor's intent to assist the proposed federal credit union.

Describe the mentor relationships and provide copies of the written acknowledgment letters in the application. At a minimum, the written acknowledgments should:

- ▶ Identify the steps, actions, or services the mentor will provide to assist the proposed federal credit union once chartered;
- ▶ Specify how the mentor will provide the specified actions or services;
- ▶ Discuss the length of time the actions or services will be provided;

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- ▶ Explain any conditions for continued involvement with the proposed federal credit union;
- ▶ Identify the name and contact information of the specific individual(s) providing the assistance, and
- ▶ Include any other pertinent information.

Sponsors

A sponsor is usually a company or organization within the proposed federal credit union's field of membership. A sponsor could assist the proposed federal credit union with monetary support (such as donations for start-up costs, capital, or operational costs after chartering), non-monetary support (for example, the purchase or donation of furniture, computers, or other assets), or subsidies (like free office space, use of company copier, or access to legal department staff).

Individuals

Individuals can also support the proposed federal credit union by donating their time or funds that can go towards covering the chartering process and costs (membership survey, legal reviews), start-up costs for the new credit union (equipment, furniture, supplies), or operational costs after chartering.

Credit Union Leagues or Associations

These are trade associations for credit unions. Located in most states, these associations provide a wide variety of services, such as education, training, and small credit union consulting. Some may provide products and other services, such as form purchasing, audits, legal consultation, or guidance on compliance with regulations. Some may also provide hands-on assistance with the charter application steps. Examples of how leagues and associations might assist in the chartering process include:

- ▶ Answering questions
- ▶ Identifying training needs and available educational or training resources for staff and officials
- ▶ Providing sample policies and procedures

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- ▶ Identifying vendors serving the credit union industry for bond coverage, insurance, purchasing supplies, and similar services
- ▶ Identifying potential mentor credit unions in the area
- ▶ Providing human resource guidance, such as job descriptions, advertising positions, interviewing, or salary surveys

Most leagues and associations have websites that contain helpful information about the credit union industry. Some leagues have consolidated and serve a region of multiple states. Leagues can be located by performing an internet search.

Corporate Credit Unions

Corporate credit unions are credit unions for credit unions. They can serve state, regional, or nationwide fields of membership and offer a wide variety of services, including share draft (checking) accounts, investments, wire transfer services, check, and other member processing functions. [Search for corporate credit unions](#) by selecting “Corporate credit unions” under the “Field of Membership Type” drop-down.

Other Credit-Union-Affiliated Organizations

Credit-union-affiliated organizations may be able to assist or answer questions or assist proposed federal credit unions with the chartering process for a community development or low-income credit union.

Banks

Banks sometimes provide assistance to proposed federal credit unions that will be low-income designated once chartered to help comply with the bank’s Community Reinvestment Act requirements. Such assistance could be in the form of non-member deposits, grant money, office equipment, or other support.

Other Government Entities

Local, state, and possibly federal government agencies may also provide assistance to proposed federal credit unions.

Documentation Required for Established Mentor and Other Supporter Relationships

Identify all mentor relationships and include copies of the written acknowledgement letters. The written letters should:

- ▶ Identify the steps, actions, or services the mentor will provide to assist the organizing group of the new federal credit union once chartered;
- ▶ Specify how the mentor will provide the specified actions or services;
- ▶ Discuss the length of time the actions or services will be provided;
- ▶ Explain any conditions for continued involvement with the proposed federal credit union;
- ▶ Identify the name and contact information of the specific individual(s) providing the assistance; and
- ▶ Include any other pertinent information.

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Activity 2: Business Plan Development

For a business plan to demonstrate the economic viability of the proposed federal credit union, it must be supported by the following key information:

- ▶ Survey results showing field of membership support
- ▶ Evidence of funding for start-up costs, indicating financial and in-kind support
- ▶ Identification of officials and management, indicating management support

The business plan has three main objectives:

- ▶ Clearly document support for the proposed federal credit union via the survey results, along with commitment letters reflecting sponsor support, evidence of donations, and other commitments
- ▶ Detail the proposed federal credit union's goals and objectives and clearly state how and when the credit union will meet them

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- ▶ Clearly demonstrate that the goals are realistic and achievable based on the assumptions provided, and the goals agree with the financial projections

Note: The financial projections and assumptions must show the credit union can generate sufficient income and has adequate financial resources to cover the start-up and ongoing cost of operations while maintaining an adequate level of net worth.

When developing your business plan, be sure to organize it in the same sequence as outlined in Phase 2 of this Guide. All information from Phase 2 Activities 1-4 should be compiled in one document, except the pro forma financial projections and resumes. Provide the pro forma financial projections separately in a spreadsheet format, and provide resumes separate from the business plan (ideally with all resumes in one document).

Documentation Required for Business Plan

Send NCUA an email with a detailed business plan incorporating the minimum requirements outlined in the following sections:

- ▶ "NCUA 4001 - Federal Credit Union Investigation Report" on the next page
- ▶ "Mission Statement" on the next page
- ▶ "Products and Services" on page 46
- ▶ "Goals for Shares, Loans, and Number of Members" on page 47
- ▶ "Organizational/Management Plan Addressing Qualifications and Planned Training of Officials and Employees" on page 49
- ▶ "Continuity Plan for Director, Committee Members, and Management Staff" on page 52
- ▶ "Identifying a Physical Location" on page 53
- ▶ "Recordkeeping and Data Processing System" on page 54
- ▶ "Surety Bond Coverage" on page 55
- ▶ "Source of Funds And Other Support" on page 56

- ▶ "Plans for Operating Independently" on page 57
- ▶ "Developing a Marketing Plan" on page 58
- ▶ "Create Pro Forma Financial Statement Projections and Assumptions" on page 59

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NCUA 4001 - Federal Credit Union Investigation Report

Complete and sign the [NCUA 4001](#) form, identifying specific elements that will be incorporated into the business plan and the organizer's attestation to the character and fitness of each subscriber. In the economic advisability section of this form, provide only the specific information applicable to your field of membership type:

- ▶ Occupational single common bond charter
- ▶ Trade, industry, or profession, which is a single common bond charter type
- ▶ Associational single common bond charter
- ▶ Multiple common bond charter
- ▶ Community charter

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Mission Statement

Prepare a brief statement describing the purpose of the proposed federal credit union. For example: "It is the purpose of this credit union to promote thrift among its members and create a source of credit for provident and productive purposes." You can also review existing credit union websites for mission statement examples.

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Products and Services

This section should identify the financial services needed by potential members and the services that are planned for the credit union. Based on the results of the membership surveys and available capital and funding, identify the products (such as loans and shares) and services (such as money orders, wire transfers, notary service, debit/ATM cards) to be offered in the first two years and the timing of when they will be made available (upon opening, within 6 or 12 months, end of Year 1 or 2). The offering of products and services at the commencement of operations should be based on what is realistically possible for a newly chartered federal credit union with possibly limited income capacity and resources.

Discuss in detail the terms, conditions, and use of third-party vendors for products or services offered in the first two years. Discuss the due diligence review performed for each vendor and state why the vendor was selected. Obtain written proposals from the vendors with the costs (flat fees and per transaction costs) to use their services. This section should also discuss the per transaction and aggregate maximum dollar limitations placed on each product and service. A summary table like the example below should be incorporated into the business plan.

| Product/Service | Start Date | Terms | Individual and Aggregate Limits | Third-Party Vendors |
|------------------------|-------------------|-------------------------------|---|----------------------------|
| | | 0.25% Dividend paid quarterly | Individual \$250,000 or insured limit Aggregate - None | |
| | | | | |
| | | 0.0% Dividend | | |

| Product/Service | Start Date | Terms | Individual and Aggregate Limits | Third-Party Vendors |
|-----------------|------------|---|---|---------------------|
| | | See Fee Schedule | | |
| | | Rate = Average of 5 CU Competitors 60 Month Maximum Maturity | Individual \$5,000 Aggregate the lesser of \$500,000 or 40 percent of total loans. | |

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Goals for Shares, Loans, and Number of Members

This section outlines projections for the dollar amount and number of loans and shares and the number of members for the first two years of operation. The intent of this section is to provide benchmarks upon which the credit union and NCUA can measure the success of the group and its business plan. The goals should be broken down by each loan and share product type and expressed in annual periods. The goals should agree with the financial projections. Include a discussion of the basis for each goal and identify the section of the membership survey supporting the goal.

The table below is a partial illustration of information you would include in this section and incorporate into the proposed federal credit union’s pro forma financial statements projections.

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| Growth Assumptions | 1st Year 20XX | 2nd Year 20XX | 3rd Year 20XX |
|---------------------------|----------------------|----------------------|----------------------|
| | | | |
| | | | |
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This sample shows how you might document your assumptions in the pro forma financial statement projection assumptions for members, vehicle loans, checking accounts, and 24-month share certificate accounts.

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Organizational/Management Plan Addressing Qualifications and Planned Training of Officials and Employees

Officials (board, supervisory committee and credit committee)

Most credit union officials volunteer their time and cannot be compensated. However, reimbursement of reasonable expenses incurred in the execution of the duties of the position is not considered compensation. Such expenses, if permitted, should be addressed in a written reimbursement policy.

In this step, identify the individuals selected to initially serve as officials of the proposed federal credit union, including:

- ▶ **Board of Directors**—The credit union must have an odd number of members between 5 and 15. Only one board member may be compensated as an officer of the board.
- ▶ **Supervisory Committee Members**—This required committee must have between 3 and 5 members.
- ▶ **Credit Committee Members**—If used, this committee must have an odd number of members between 3 and 7. Loan officers may be used instead of, or in conjunction with, a credit committee.

In limited cases, volunteers may serve concurrently on the board of directors and on either the supervisory committee or the credit committee. However, the Federal Credit Union Act, Federal Credit Union Bylaws, NCUA's Regulations, and principles of sound internal controls place restrictions on individuals from simultaneously serving in certain conflicting positions.

NCUA has specific requirements for the board of directors. See NCUA regulations § 701.4, [General authorities and duties of Federal credit union directors](#) for additional information.

When selecting directors, be confident they possess or can quickly acquire the skills to:

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- ▶ Carry out the duties of a director in good faith, in the best interests of the membership, and with such care as an ordinarily prudent person in a like position would use under similar circumstances;
- ▶ Administer the affairs of the credit union fairly, impartially, and without discrimination;
- ▶ Direct management's operations in conformity with the Federal Credit Union Act, NCUA's Regulations, other applicable law, and sound business practices; and
- ▶ Have a working familiarity with basic finance and accounting practices, including the ability to read and understand the credit union's balance sheet and income statement, and to ask, as appropriate, substantive questions of management and the internal and external auditors.

Directors should possess the requisite financial skills within six months of being appointed or elected.

Each prospective official must complete the [NCUA 4012 Report of Official and Agreement to Serve](#) form, and a resume. Submit all resumes in Phase 2 with the business plan. You will submit NCUA 4012 forms during Phase 3.

NCUA will evaluate a prospective applicant's competence, experience, character, and integrity to ensure his or her association with a newly chartered credit union is in the best interests of the credit union's members and the public. This evaluation is performed through a review of every individual's NCUA 4012 form, resume, credit report, and criminal background check.

Senior Management and Credit Union Staff

Discuss the number of employees, their titles, and the anticipated compensation and benefits in this section of the business plan. Include a job description for each job title as well as a training schedule. Staff should have experience or expertise in offering and managing the products and services to be offered. The more sophisticated the products and services, the greater the experience and expertise required. Documentation must demonstrate each employee is either qualified to handle the responsibilities outlined in the job description or identify the necessary training to adequately prepare the employee prior to opening the proposed federal credit union. The training plan should also include how the employees will be trained to use the data processing system and identify the associated training costs.

Identify senior management employees. You will submit NCUA 4012 forms for all senior management employees in Phase 3. Non-senior management staff will not complete an NCUA 4012 form.

All management arrangements and agreements with third parties (such as another credit union) must be in writing and reviewed by an attorney representing the proposed federal credit union's interest.

Be sure to incorporate all compensation (including benefits) and training costs into the pro forma financial statements.

Documentation Required for Organizational/Management Plan (addressing qualifications and planned training of officials and employees)

- ▶ Provide draft copies of lease agreements and vendor contracts, along with any attorney's written review of a contract, if applicable. Typical contracts might include a management contract or core data processing vendor contracts.
- ▶ Provide a resume for each director, committee member, and management and summarize qualifications.

Note: After submitting the business plan in this phase, you will submit a Report of Official and Agreement to Serve (NCUA 4012 form) for every individual who intends to serve as an official and/or senior management of the proposed federal credit union. This will be done during phase 3. NCUA 4012 forms are not required for staff members or for individuals serving solely as subscribers.

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Continuity Plan for Director, Committee Members, and Management Staff

Discuss the number of directors and members for each committee, including a supervisory committee and a credit committee, if being used. Detail the terms of each official and the training to be provided prior to and after opening the proposed federal credit union. Also, discuss how you plan to find and train future credit union officials and your succession plan for replacing the CEO or manager. Some potential training topics for officials are:

- ▶ Board governance;
- ▶ The board's duties, powers, and responsibilities;
- ▶ Financial statements and key financial trends and conditions;
- ▶ The risks of operating a credit union and how to identify and control these risks;
- ▶ Economic trends and their effect on the credit union;
- ▶ Effective business planning with goals and measurable outcomes;
- ▶ How to conduct effective meetings;
- ▶ CEO or manager evaluations;
- ▶ Communicating with other officials and staff effectively; and
- ▶ Working and communicating with your regulator and insurer.

Incorporate the associated training costs into the pro forma financial statements.

If a written management arrangement or agreement will be used, discuss how management and staff will continue after the term of the arrangement or agreement ends.

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Identifying a Physical Location

Each credit union must have at least one physical location, including proposed federal credit unions that are anticipating most transactions via the internet, kiosks, or other electronic means. The organizing group should determine an anticipated location of the main office and any other physical branch locations to be open at inception. If the exact addresses are not known, provide the city and state.

Identify the location and cost of the proposed federal credit union's office and describe why this location was selected. A draft copy of a purchase, lease, or rental agreement should be reviewed by an attorney representing the proposed federal credit union's interest. Submit a copy of the draft agreement and attorney review to NCUA. If a specific location has not yet been determined, identify the planned location and the cost of space in the area, supported by written estimates for at least three locations.

A specific location will need to be determined prior to a proposed federal credit union finalizing its charter application and NCUA acting on it. NCUA highly recommends the establishment of only one facility until the credit union has gained experience in how to efficiently operate this facility prior to the establishment of branch offices.

Also include in this section any planned leasehold improvements, need for office equipment and supplies, safeguarding of assets (such as security equipment and plans), insurance coverage, utility costs, and incorporate these expenses into the pro forma financial statements.

Additionally, state the proposed hours the office will be open to members to transact business.

Documentation Required for the Identified Location

- ▶ Document the proposed federal credit union's anticipated physical address of its main office and any branches to be opened at inception, in the business plan.
- ▶ Provide a draft copy of a lease agreement or other commitment documents as applicable.

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Recordkeeping and Data Processing System

Identify the data processing system(s) the credit union will use. Discuss why the system(s) was selected and the cost of the system(s). Draft copies of the proposed hardware and software purchase or lease agreements, maintenance contracts, and vendor estimates of other ongoing costs should be reviewed by an attorney representing the proposed federal credit union's interest. Include the documents and reviews in your application package. NCUA will also evaluate if any limitation on the terms of any draft contract would be necessary. Incorporate the associated costs (including fixed assets, amortization, depreciated expense, and others) into the pro forma balance sheets and income statements.

Note: NCUA may also request draft contracts with terms greater than one year contain the following language: "The credit union or its successor shall have the option to terminate this contract/agreement without any liability (other than for services already rendered) or penalty whatsoever to the vendor effective upon NCUA's carrying out its Prompt Corrective Action responsibilities against the credit union pursuant to NCUA's regulations part 702, [Capital Adequacy](#), resulting in the merger, conservatorship, or liquidation of the credit union."

The table below provides an example of a fixed asset listing and depreciation schedule.

| Furniture, Fixtures, & Equipment | Estimated Cost | Life of Asset | Monthly Depreciation |
|---|-----------------------|----------------------|---------------------------------|
| | | | |
| | | | |
| Audio Response System | | | |
| | | | |

| Furniture, Fixtures, & Equipment | Estimated Cost | Life of Asset | Monthly Depreciation |
|--|----------------|---------------|-------------------------|
| | | | |
| | | | |

Note: To determine the life of an asset, consult a Certified Public Accountant for the generally accepted accounting guidelines.

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Surety Bond Coverage

NCUA regulations § 713.5, [What is the required minimum dollar amount of coverage?](#) requires minimum bond coverage, currently as shown below.

Total Assets: \$0 to \$4,000,000

Minimum Bond: Lesser of total assets or \$250,000.

Total Assets: \$4,000,001 to \$50,000,000

Minimum Bond: \$100,000 plus \$50,000 for each million or fraction thereof over \$1,000,000.

Total Assets: \$50,000,001 to \$500,000,000

Minimum Bond: \$2,550,000 plus \$10,000 for each million or fraction thereof over \$50,000,000, to a maximum of \$5,000,000.

Total Assets: Over \$500,000,000

Minimum Bond: One percent of assets, rounded to the nearest hundred million, to a maximum of \$9,000,000.

A proposed federal credit union would need to purchase additional or enhanced coverage when circumstances warrant. The organizing group should perform an internal risk assessment and consider factors such as the amount of cash on hand, cash in transit, and the nature and risks inherent in any services offered, such as

automated clearing house, wire transfer, and remittance services. Evaluate whether insurance coverage is needed for credit union operations not covered by your surety bond.

The associated costs for the surety bond and other coverage must be incorporated into the pro forma financial statements and evidence of the proposed coverage submitted to NCUA.

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Source of Funds And Other Support

You must ensure the level of funding and support is sufficient to operate the credit union by providing services deemed important by the members, as reflected in the membership survey. The proposed federal credit union's financial projections should include all monetary support and subsidies that are detailed in this section of the business plan. Support can come from any source(s), for example:

- ▶ A sponsor
- ▶ An organizer
- ▶ An individual
- ▶ A community group or organization
- ▶ A mentor credit union
- ▶ Another financial institution

Support can be in the form of:

- ▶ Grants or donations for capital
- ▶ Non-member deposits
- ▶ Donated equipment
- ▶ Free or low-cost office space or services
- ▶ Any other in-kind donations or subsidies

Each supporter's assistance should be explained in detail, including:

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- ▶ What amount or type of support will be provided
- ▶ When the support begins and ends
- ▶ Whether the assistance is to be repaid
- ▶ Whether there are any other terms or conditions

Ensure all commitments being relied upon and used to support the financial projections are in writing. Commitments may be in the form of letters, draft contracts, or any other such document substantiating the proposed federal credit union's projections, accompanied by financial statements or similar documentation from the supporter(s) demonstrating their ability to meet the commitment. A sample commitment letter is located [here](#).

NCUA will review the documentation of the donors' ability to fund their donated capital commitment or proof of deposit if the donation has already been made. Bank statements or audited financial statements are typically provided to show proof of ability to fund.

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Plans for Operating Independently

You need to explain and support how the proposed federal credit union will continue operations after Year 2 while remaining solvent (showing positive net worth).¹ Include assumptions in this section and provide support in the form of annual pro forma financial projections (including balance sheet and income statement projections) demonstrating when the proposed federal credit union will generate positive net income absent grants or donations from outside sources. Submit pro forma financial projections that extend through the year positive net income is achieved.

Note: Net worth is computed as all the credit union's retained earnings, including undivided earnings, regular reserves, uninsured secondary capital (available for LID credit unions only), net income, and other reserves (excluding the allowance for loan and lease losses, and accumulated gains/losses on available for sale securities).

Developing a Marketing Plan

Describe how the proposed federal credit union will market the credit union to potential members. Specifically identify the advertising venues and methods to be used and include the cost for each. Some examples of marketing strategies are:

- ▶ Targeted social media ads each quarter at a cost of \$1,300
- ▶ Word-of-mouth advertising via on-site visits at three local organizations once a week at a cost of \$15 for the membership materials provided to the three local organizations. On-site visits will be handled by the manager on Wednesday mornings before the office opens
- ▶ Table rental for distribution of credit union materials at community festival at \$20
- ▶ School sports field advertisement for a donation of \$100

The frequency and cost for the advertisement can be easily illustrated via a rollout marketing calendar. The marketing venues or methods are listed in the left column with the periods listed in the top row, and the cost of the marketing strategy appears where the row intersects the column. The marketing strategies, such as those just identified, should correspond with the information provided in the marketing calendar. Table 1 provides an example of a marketing calendar for Year 1.

Example of Marketing Calendar

| Marketing Venues | Q1 | Q2 | Q3 | Q4 | Year 1 Total |
|------------------|----|----|----|----|--------------|
| | | | | | |
| | | | | | |
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| | | | | | |

| Marketing Venues | Q1 | Q2 | Q3 | Q4 | Year 1 Total |
|-------------------------|-----------|-----------|-----------|-----------|---------------------|
| | | | | | |

If the proposed federal credit union will serve a local community, neighborhood, or rural district, the marketing plan should incorporate the analysis of the area’s demographic characteristics, along with a discussion about how the proposed federal credit union will reach out and effectively serve all segments of the population. Refer to NCUA's regulations part 701, Appendix B - [Chartering and Field of Membership Manual](#) Section V.A.4-Business Plan Requirements for a Community Credit Union, for additional details.

Discuss what activities and events are planned within the proposed federal credit union’s service area and/or groups to promote the new federal credit union’s services and products. For example, participation in local Chamber of Commerce events, such as a vendor fair or annual food drive.

See [part 740 of NCUA’s regulations](#) for requirements regarding the accuracy of advertising. Be sure to include all marketing costs in the pro forma financial statement projections.

Documentation Required for the Marketing Plan

- ▶ As part of the business plan, submit a written marketing plan including costs associated with each marketing initiative as detailed in this section.

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Create Pro Forma Financial Statement Projections and Assumptions

Before finalizing the pro forma financial statement projections and assumptions, the proposed federal credit union should confirm with NCUA that the review of the membership survey was found to be adequately completed (represents a

statistically valid random sample or targeted random sample, the results are tallied, and a written analysis developed).

Once the results from the membership survey are tallied, analyzed, and conclusions reached, you will use the results to develop assumptions for membership, loans, shares, usage of products and services, etc. and projections for the proposed federal credit union's pro forma financial statements.

Detailed pro forma financial statements consist of a balance sheet and income statement for at least the first two years of operations and until the credit union is profitable, as well as membership, delinquency, and net charge off projections. We provide an [example](#) of detailed pro forma financial statement projections illustrating the breakout of categories on a proposed federal credit union's balance sheet and income statement on our website.

Include in this section written, detailed assumptions explaining how each line item category on the balance sheet and income statement was calculated and include the basis for the assumption (such as survey results, industry averages, other indicators). An example of [written assumptions](#) is on our website.

As discussed earlier in this chapter under [Plans for Operating Independently](#), submit financial projections beyond Year 2 through the year the proposed federal credit union plans to operate profitably absent grant money. For example, if the proposed federal credit union projects it will not be profitable until Year 5, prepare and include pro forma financial projections through Year 5. Only the first two years of projections need to be semi-annual. Subsequent years can be annual.

Documentation Required for the Pro Forma Financial Statements and Assumptions

- ▶ Submit to CURE by email with the business plan the semi-annual pro forma balance sheet and income statement projections and corresponding assumptions for at least the first two full years of operation; and
- ▶ Submit annual pro forma financial projections through the year the proposed federal credit union will be profitable through positive earnings to demonstrate its ability to operate independently.

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Activity 3: Adopt Proposed Bylaws

Customize NCUA's [Federal Credit Union Bylaws](#) within the parameters the NCUA Board has preapproved, to meet the needs of the proposed federal credit union. Fill in the indicated blanks and select the appropriate options available for certain articles or sections. No other changes can be made to the bylaws without prior NCUA approval.

Documentation Required for Bylaws

- ▶ Provide the adopted credit union bylaws to CURE by email.

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Activity 4: Draft Proposed Policies & Procedures

The board of directors of a federal credit union charter is ultimately responsible for establishing the policies of the credit union. It is through written policies and the resulting procedures that the board of directors and management control the operations of the credit union. Policies and procedures should specifically address the impact on the credit union's operation and should be reviewed and adjusted annually at minimum, or more often as necessary. The specific policies and procedures required for a new federal credit union will depend on its offerings, membership, and environment.

The organizing group should become familiar with NCUA's regulations, consumer regulations, and safe and sound business practices to develop many of the policies described in the following paragraphs. NCUA Letters to Credit Unions and the [Examiner's Guide](#) also provide guidance on many of these policy areas. Your mentor credit union(s) may assist with drafting credit union policies. Sample policies obtained from a vendor or other third party should be modified to fit the operations of the proposed federal credit union.

The following paragraphs provide an overview of basic written policies. Some may not be applicable, depending on the new federal credit union's products and services, membership, and other factors. Under each required policy, you will find references to regulations or guidance to assist you in this process. These references

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are not intended to be comprehensive. You should refer to the relevant regulations and most recent guidance when developing your policies.

Prudent credit unions will develop robust policies and procedures to address the following:

- ▶ [Fair Lending and Loans](#)
- ▶ [Collections](#)
- ▶ [Loan Charge-Offs](#)
- ▶ [Allowance for Loan and Lease Losses \(ALLL\)](#)
- ▶ [Investments](#)
- ▶ [Cash](#)
- ▶ [Bank Secrecy Act / Customer Identification / Customer Due Diligence](#)
- ▶ [Office of Foreign Assets Control](#)
- ▶ [Truth-in-Savings](#)
- ▶ [Director Fiduciary Duties](#)
- ▶ [Reimbursement](#)
- ▶ [Asset Liability Management](#)
- ▶ [Liquidity](#)
- ▶ [Vendor Management / Third-Party Relationships](#)
- ▶ [E-Commerce](#)
- ▶ [Security](#)
- ▶ [Disaster Recovery and Business Continuity or Resumption](#)
- ▶ [Privacy](#)
- ▶ [Identify Theft Red Flags, Credit Report Address Discrepancies, and Records Disposal](#)
- ▶ [Major Operational Areas](#)
- ▶ [Advanced Services](#)

Fair Lending Policy and Loan Policy

Fair lending laws are designed to provide fair and equal access to credit, based on individual creditworthiness, without regard to a prohibited basis such as race, gender, or national origin. The fair lending policies and procedures should clearly state how the credit union will comply with fair lending laws and enable the credit union to serve the entire field of membership.

The board of directors and senior management will need to understand and convey to all credit union staff they are responsible and accountable for complying with fair lending laws and regulations. Policies and procedures concerning the approval of credit, loan underwriting, pricing, and servicing standards need to be clearly written and understood. Fair lending training should be provided for all credit union employees and officials involved in the lending process. Include training for employees who take applications, originate loans, service loans, and collect delinquent loans. Additionally, the supervisory committee and any internal audit staff should incorporate an assessment of compliance with the credit union's fair lending policies as a component of their review procedures.

Loan policies need to identify the type of lending programs to be offered in the first two years of operation. Specifically, policies should describe the type of loans, dollar limitations, terms and interest rates, maturity, collateral and insurance requirements, and other issues within each lending program. State the factors and parameters (such as credit standards) for processing a loan within each lending program.

Ensure the loan policies address compliance with the appropriate consumer lending regulations, including:

- ▶ [Truth-in-Lending Act](#) (Regulation Z)
- ▶ [Equal Credit Opportunity Act](#) (Regulation B)
- ▶ [Fair Credit Reporting Act](#) (Regulation V)

More advanced lending products, such as mortgage loans, will require compliance with the [Real Estate Settlement Procedures Act](#) (Regulation X), [Fair Housing Act](#), and the [Home Mortgage Disclosure Act](#) (Regulation C), among other requirements.

Review the following NCUA's regulations pertaining to loans or loan-related matters:

- ▶ § 701.21, [Loans to members and lines of credit to members](#)
- ▶ § 701.22, [Loan participations](#)
 - Letter to Credit Unions 13-CU-07, [Loan Participation Waivers](#)
- ▶ § 701.23, [Purchase, sale, and pledge of eligible obligations](#)
- ▶ § 701.31, [Nondiscrimination Requirements](#)
- ▶ Part 717, [Fair Credit Reporting](#)
- ▶ Part 722, [Appraisals](#)
- ▶ Part 723, [Member Business Loans; Commercial Lending](#)
- ▶ Part 760, [Loans in Areas Having Special Flood Hazards](#)
- ▶ Part 761, [Registration of Residential Mortgage Loan Originators](#)

Additional guidance on lending matters can be found under NCUA's [Letters to Credit Unions and Other Guidance](#) section of NCUA's [website](#).

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Collections Policy

Ensure the collections policy outlines collection practices, including information such as who is responsible for collections contacts; what are the timeframes and collection contacts/actions to be taken, such as reminder notices, letters, telephone calls, repossessions, foreclosures, or referrals to a collection agency or attorney. The policy should also identify how often collection efforts will be documented and tracked, and board reporting requirements.

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Loan Charge-Off Policy

Develop a policy outlining charge-off practices. NCUA Letter to Credit Unions 03-CU-01, Loan Charge-Off Guidance for additional information.

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Allowance for Loan and Lease Losses (ALLL) Policy

Develop an ALLL policy addressing the methodology and documentation requirements to fund the ALLL account.

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Investment Policy

Ensure the investment policy addresses all requirements outlined in NCUA's regulations part 703, [Investment and Deposit Activities](#), such as permissible investments; explains how interest rate, liquidity, credit, and concentration risk will be managed; identifies who has investment authority and the extent of their authority, approved broker-dealers, approved safe keepers; and any other requirements.

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Cash Policy

Identify how cash will be handled and the permissible amount to be held on the credit union's premises. The amount of cash in teller drawers, vaults, etc. must be based on the bonding limits from an approved bond company. See NCUA regulations § 713.5, [What is the required minimum dollar amount of coverage?](#) for more information on the minimum bond coverage required.

Having a cash operation has Bank Secrecy Act implications, such as filing of Currency Transaction Reports (CTR) and Suspicious Activity Reports (SAR), which should be further addressed in the proposed federal credit union's Bank Secrecy Act (BSA) policy.

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Bank Secrecy Act / Customer Identification / Customer Due Diligence Program

Ensure these policies address all applicable requirements. Refer to the interagency [Bank Secrecy Act/Anti-Money Laundering \(BSA/AML\) Examination Manual](#) developed by the Federal Financial Institutions Examination Council member agencies, for information on the policy requirements, including how a member's identity will be verified. The BSA program needs to be commensurate with the proposed federal credit union's respective BSA/AML risk profiles and address the following required elements:

- ▶ System of internal controls
- ▶ Independent testing
- ▶ Designated person or persons responsible
- ▶ Training
- ▶ Customer due diligence

In general, BSA requires credit unions to track cash transactions and purchases of cash equivalents, such as money orders, and to comply with other recordkeeping and reporting requirements. The forms used most frequently by credit unions to report transactions are the Currency Transaction Report and the Suspicious Activity Report.

The Customer Identification Program (CIP)/Customer Due Diligence (CDD) policy must detail the method to verify a person's identity and include risk-based procedures for conducting ongoing customer due diligence and complying with beneficial ownership requirements for legal entity customers. It should indicate

who will handle or respond to the information sharing requests (commonly known as 314a lists) provided by the Financial Crimes Enforcement Network (FinCEN).

Separate policies may be developed for BSA, CIP, and CDD if preferred. BSA regulatory requirements are located in NCUA regulations §§ 748.1, [Filing of reports](#); and 748.2, [Procedures for monitoring Bank Secrecy Act \(BSA\) compliance](#). Additional guidance is found on NCUA's [Bank Secrecy Act Resources site](#) in NCUA's section of the [FFIEC BSA/AML Examination Agency Resources site](#).

The BSA statute and implementing regulations can be viewed on [FinCEN's website](#).

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Office of Foreign Assets Control (OFAC) Policy

Develop an OFAC policy addressing compliance, including appropriate actions to block, freeze, or prohibit transactions with persons and countries contained on the Specially Designated Nationals (SDN) and Blocked Persons list. Credit unions must take steps to download or otherwise obtain the SDN list from OFAC on a regular basis. Many data processing vendors have incorporated OFAC reviews, including the download of updated SDN lists, in their daily processing and monthly closing routines. Section 314 of the USA Patriot Act addresses cooperative efforts between law enforcement agencies and financial institutions to deter money laundering.

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Truth-in-Savings (TIS) Policy

Develop TIS disclosures that comply with NCUA regulations part 707, [Truth in Savings](#). TIS disclosures outline the share products and include the terms, interest rates, maturity, fees, procedure for payment of dividends, etc., for each of the share products. NCUA regulations § 701.35 [Share, share draft, and share certificate accounts](#), covers permissible share accounts; permissible non-member deposits are outlined in § 701.32, [Payment on shares by public units and nonmembers](#).

Director Fiduciary Duties

Develop a policy addressing the fiduciary responsibilities of the board of directors. The board of directors is responsible for the general direction and control of the credit union, including the ability to:

- ▶ Carry out the duties of a director in good faith and in the best interests of the membership
- ▶ Administer the affairs of the credit union fairly, impartially, and without discrimination
- ▶ Direct management's operations in conformity with the Federal Credit Union Act, NCUA's regulations, other applicable law, and sound business practices
- ▶ Develop a working familiarity with basic finance and accounting practices, including the ability to read and understand the credit union's balance sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors within six months of appointment or election

The policy should also include training available to implement the objectives listed above. NCUA's regulations § 701.4, [General authorities and duties of Federal credit union directors](#), and Letter to Federal Credit Union 11-FCU-02, [Duties of Federal Credit Union Boards of Directors](#), address directors' fiduciary duties.

Reimbursement Policy

Develop, in accordance with NCUA regulation § [701.33\(b\)\(2\)\(i\)](#), written policies and procedures, including documentation requirements, for the payment of reasonable and proper costs incurred by an official in carrying out the official's responsibilities, if the board of directors determines the payment is necessary or appropriate to carry out the official business of the credit union. Such payment includes

reimbursement to a credit union official or direct credit union payment to a third party.

Last updated on March 30, 2026

Asset Liability Management (ALM) Policy

Ensure the asset liability management policy addresses interest rate risk limits, monitoring, reporting, and controls. ALM is a process of evaluating balance sheet risk (interest rate and liquidity risks) and making prudent decisions, which enables a credit union to remain financially viable as economic conditions change. An ALM policy is necessary to control interest rate risk and liquidity risk associated with longer term investments, real estate loans, and business lending activities. The following Letters to Credit Unions and the [Examiner's Guide](#) provide additional information:

- ▶ 00-CU-14, [Liquidity and Balance Sheet Risk Management](#)
- ▶ 01-CU-08, [Liability Management - Highly Rate-Sensitive & Volatile Funding Sources](#)
- ▶ 10-CU-06, [Interagency Advisory on Interest Rate Risk Management](#)
- ▶ 10-CU-14, [Strengthening Funding and Liquidity Risk Management](#)
- ▶ 12-CU-05, [Interest Rate Risk Policy and Program Requirements](#)
- ▶ 12-CU-11, [Interest Rate Risk Policy and Program Frequently Asked Questions](#)
- ▶ 13-CU-10, [Guidance on How to Comply with NCUA Regulation §741.12 Liquidity and Contingency Funding Plans](#)

Last updated on March 30, 2026

Liquidity Policy

Develop a liquidity policy that addresses:

Phase 2: Completing the Charter Application

- ▶ Minimum cash levels;
- ▶ Concentration limits in loans, investments, fixed assets, and other areas;
- ▶ Approved liquidity sources such as a corporate credit union line of credit, correspondent banking relationships, Federal Home Loan Bank membership, NCUA's Central Liquidity Facility, or Federal Reserve System; and
- ▶ Reporting and monitoring requirements.

Adequate liquidity management helps ensure management has sufficient funds available to meet demands for loans and share withdrawals. For information on liquidity and contingency funding plans, please see:

- ▶ NCUA regulations § 741.12, [Liquidity and contingency funding plans](#)
- ▶ The [Examiner's Guide](#)
- ▶ Letter to Credit Unions 10-CU-14, [Strengthening Funding and Liquidity Risk Management](#)
- ▶ Letter to Credit Unions 13-CU-10, [Guidance on How to Comply with NCUA Regulation §741.12 Liquidity and Contingency Funding Plans](#), .

Last updated on March 30, 2026

Vendor Management/Third-Party Relationships

Develop a vendor management policy that addresses planning, due diligence, and controls required before engaging in third-party relationships. The level of planning, due diligence, and controls required to safely engage in any relationship depends upon the credit union's risk profiles and the type of relationship with the vendor. For more information on vendor/third-party relationships, see the following Letters to Credit Unions:

- ▶ 08-CU-09, [Evaluating Third Party Relationships Questionnaire](#)
- ▶ 07-CU-13, [Evaluating Third Party Relationships](#)
- ▶ 01-CU-20, [Due Diligence Over Third Party Service Providers](#)

Last updated on March 30, 2026

E-Commerce Policy

Establish an e-commerce policy when the business plan calls for delivering financial services electronically, including the internet and audio response. This policy should address procedures that monitor and control activities relating to the electronic delivery of financial services. Ensure this policy adequately addresses the federal consumer protection laws and regulations pertaining to electronic delivery of financial services, specifically the Electronic Fund Transfers Act (CFPB Regulation E, [12 CFR Part 1005](#)) and Electronic Signatures in Global and National Commerce Act ([E-SIGN Act](#), codified at 15 U.S.C. §§ 7001-7006, 7021, and 7031).

Last updated on March 30, 2026

Security Program

Develop a security program covering the following areas:

- ▶ Protecting each credit union office from robberies, burglaries, larcenies, and embezzlement;
- ▶ Ensuring the security and confidentiality of member records (hardcopy and electronic records); and
- ▶ Preventing the destruction of vital records.

As appropriate, the security policy needs to address the requirements and guidelines of NCUA's regulations part 748, Appendix A, [Guidelines for Safeguarding Member Information](#); part 748, Appendix B, [Guidance on Response Programs for Unauthorized Access to Member Information and Member Notice](#); and part 749, [Records Preservation Program](#). Letter to Credit Unions 06-CU-07, [IT Security Compliance Guide for Credit Unions](#) also provides guidance on developing a security program.

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Disaster Recovery and Business Continuity or Resumption Policy

Establish a disaster recovery policy covering potential disasters and describes what staff must do and who they must notify in the event of a disaster. The policy should also indicate where back-up records will be stored or maintained. For guidance on disaster recovery programs, Risk Alert 06-RISK-01, [Disaster Planning and Response](#) and the following Letters to Credit Unions:

- ▶ 11-CU-13, [Emergency Financial Services for Disaster Victims](#)
- ▶ 09-CU-13, [Hurricane Preparedness and Pandemic Planning](#)
- ▶ 08-CU-07, [Evaluating Risk Management of Remote Deposit Capture Questionnaire](#)
- ▶ 08-CU-01, [Guidance on Pandemic Planning](#)
- ▶ 06-CU-12, [Hurricane Preparedness and Pandemic Planning](#)
- ▶ 01-CU-21, [Disaster Recovery and Business Resumption](#)

Ensure the policy includes business continuity and resumption procedures during failures affecting telecommunications networks, telephone lines, power grids, and water and sanitation systems.

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Privacy

Create a privacy policy addressing treatment of nonpublic personal information about consumers and compliance with annual disclosure requirements. For more information, refer to CFPB Regulation P ([12 CFR Part 1016](#)).

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Identity Theft Red Flags, Credit Report Address Discrepancies, and Records Disposal

Develop and implement written identity theft prevention programs under the Red Flags Rules, which implement part of the Fair and Accurate Credit Transactions Act of 2003 (FACTA). Under these rules, financial institutions and creditors with covered accounts must have identity theft prevention programs in place to identify, detect, and respond to patterns, practices, or specific activities that could indicate identity theft.

Note: For federal credit unions, the red flags rules appear in NCUA regulations part 717, subpart J, [Identity Theft Red Flags](#), and part 717, Appendix J, [Interagency Guidelines on Identity Theft Detection, Prevention, and Mitigation](#).

FACTA also requires users of credit reports to implement reasonable policies and procedures to use when the user receives a notice of address discrepancy from a credit reporting agency. Additionally, credit unions and other financial institutions are required to adopt measures for properly disposing of consumer information derived from credit reports.

Note: For federal credit unions, the credit report address discrepancies and disposal of consumer information rules appear in NCUA regulations part 717, subpart I, [Duties of Users of Consumer Reports Regarding Address Discrepancies and Records Disposal](#).

Last updated on March 30, 2026

Procedures for Major Operational Areas

In addition to the written policies in the section above, written procedures must be developed for all major areas of operations, including, but not limited to, record retention, maintaining and balancing general ledger accounts; capitalization or expenditure of purchases, and fixed asset calculation and limit.

Policies for Advanced Services

Policies should be established for any complex or higher-risk services planned for implementation during the first two years of operations. For example, a share draft program should have a policy to address the terms of the program, including who will qualify for an account, when an account will be closed, overdraft procedures, fees, clearing procedures, third party relationships, and compliance with the Expedited Funds Availability Act and the Check Clearing for the 21st Century Act (Codified in Regulation CC, [12 CFR Part 229](#)), the Truth-in-Savings Act, and the Reserve Requirements of Depository Institutions (Regulation D, [12 CFR 204](#)). A credit union must also have a policy to address overdraft protection procedures, if applicable, as required in NCUA regulations § 701.21(c)(3), [Credit applications and overdrafts](#).

See Letters to Credit Unions 05-CU-03, [Overdraft Protection Bounce Protection Programs](#) and 05-CU-21, [Overdraft Courtesy Pay Programs](#); and Regulatory Alert 10-RA-12, [Member Notice Requirements for Overdraft Services](#), for information on overdraft courtesy pay programs.

Documentation Required for Developed Policies

- ▶ Provide draft copies of all written policies.

PHASE 3: SUBMITTING THE APPLICATION FORMS FOR FINAL NCUA APPROVAL

Begin after successfully completing Phase 2.

Once you have satisfactorily submitted all the items required in Phase 2 and received notification from NCUA to begin Phase 3, you will:

[Complete the remaining required forms](#)

[Meet with NCUA staff to sign the letter of understanding and agreement](#)

[Receive your charter](#)

Phase 3 includes the final activities required in the chartering process.

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Complete Remaining Required NCUA Forms

NCUA regulation part 701, Appendix B - [Chartering and Field of Membership Manual](#) , contains the [required chartering forms](#). These forms must be completed and signed by the appropriate individuals before a final approval may be issued.

The forms are:

- ▶ [NCUA 4008](#)
- ▶ [NUCA 4012](#)
- ▶ [NCUA 9500](#)
- ▶ [NCUA 9501](#)

[NCUA 4008 - Organization Certificate](#)

This form must be signed by each subscriber (minimum seven subscribers required). Ensure each subscriber's signature matches the printed version of the subscriber's name on this form, and that the names on this form are identical to the names of subscribers listed on NCUA 4001 form. Provide two notarized copies of this form to NCUA.

Note: NCUA recommends submitting the two notarized copies of NCUA 4008 form after NCUA approves all subscribers, to prevent filing of a revised NCUA 4008 form if any subscribers are not approved to serve after NCUA conducts the credit and criminal background checks. Similar changes may be needed to other forms (for example, NCUA 4001) due to NCUA's credit and criminal background investigations.

[NCUA 4012 - Report of Official and Agreement to Serve](#)

This form must be signed by each individual who will serve as a credit union board member, supervisory committee member, credit committee member (if one is formed), and each staff member serving in a senior management capacity. Senior management is defined as a credit union's chief executive officer (typically this individual holds the title of president or treasurer/manager), any assistant chief executive officer (any assistant president, any vice president, or any assistant treasurer/manager), and the chief financial officer (controller). The term "senior executive officer" also includes employees of an entity, such as a consulting firm, hired to perform the functions of positions covered by the regulation.

NCUA will evaluate a prospective applicant's competence, experience, character, and integrity to ensure their association with a newly chartered credit union is in the best interests of the credit union's members and the public. This evaluation is performed through a review of every individual's NCUA 4012 form, resume, credit report, and criminal background check. All resumes were submitted in Phase 2 with the business plan. Submit NCUA 4012 forms during this Phase 3.

If the evaluation identifies adverse information, the applicant will be asked to explain in writing the circumstances which led to the adverse information, action taken to resolve the concerns, and steps taken to avoid similar concerns in the future. Other documentation may be requested to support the written explanation, such as proof of payment and/or agreements reached with creditors. NCUA will notify each applicant and the organizer of an individual's approval or denial to serve as an official or employee for the proposed federal credit union.

NCUA 9500 - Application and Agreement for Insurance of Accounts

This form must be signed by the individuals appointed Chairperson and Chief Financial Officer (or Treasurer).

NCUA 9501 - Certificate of Resolution

This form must be signed by the individual assigned Chief Executive Officer and appointed Recording Officer for the Board of Directors (or Secretary).

Documentation for Required Forms

- ▶ Submit forms NCUA 4008, 9500, and 9501.
- ▶ Submit individual NCUA 4012 forms for all officials and senior management. Ensure each NCUA 4012 form is appropriately completed, including the Authorization to Perform a Credit Check, and that the applicant's signature is witnessed.

Last updated on March 30, 2026

NCUA and Proposed Federal Credit Union Sign Letter of Understanding and Agreement

Upon satisfactory completion of a charter application demonstrating the organization certificate conforms to the requirements of the Federal Credit Union Act, the proposed federal credit union's business model has the potential of demonstrating economic viability, and the subscribers and officials being of good character and fitness, NCUA staff will meet with the proposed subscribers, officials, and management to finalize the letter of understanding and agreement.

The letter of understanding and agreement will be signed by the proposed federal credit union's board of directors and appropriate NCUA staff and will generally remain in place for at least 24 months. A letter of understanding and agreement outlines the parameters in which the new federal credit union will operate and is based substantially on the proposed federal credit union's approved business plan and financial projections.

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NCUA Issues Charter

Upon successful completion of NCUA's onsite review and signing of the letter of understanding and agreement, the agency will issue a Charter and Certificate of Insurance to establish the new federal credit union. NCUA will forward these documents and informational pamphlets, forms, and instructional manuals to the credit union office.

The new federal credit union will be assigned to one of NCUA's regional offices. A Supervisory Examiner and District Examiner will be assigned by the regional office to supervise the new federal credit union. The District Examiner serves as the new federal credit union's point of contact with NCUA.

Note: According to Article X of the Federal Credit Union Bylaws, "the Agency may revoke the charter for failure to start operations within 60 days after receipt of the approved organization certificate unless the Agency approves an extension of time." Any delays in the new federal credit union commencing operations should be communicated by the new

Phase 3: Submitting the Application Forms for Final NCUA Approval

federal credit union to its assigned NCUA regional office in writing, with an extension request

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