



Proof of Concept (POC) Application Instructions

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Introduction

NCUA’s Office of Credit Union Resource and Expansion (CURE) is responsible for issuing a credit union’s charter. By submitting your information through our automated system, you demonstrate to NCUA that your group has thoroughly evaluated requirements for establishing the credit union’s operations. This format does not serve as your new charter application, but serves as your ability to document the four most critical elements to establishing a new credit union. These four areas are usually the greatest challenge for organizing groups to accomplish.

This data collection process is called providing the NCUA your “Proof of Concept” (POC). The NCUA will review your responses to the POC questions. You will be advised to:

- Submit a formal charter application; or
- Provide additional information to support your POC; or
- Consider alternative options in providing financial services to your proposed group.

NCUA strongly recommends that each organizing group perform its due diligence in advance to obtain a clear understanding of the duties and responsibilities required for charter approval and credit union operations. The Federal Credit Union Application Guide (Guide) is the primary reference for chartering.

Each **Critical Element** will be reviewed and given a score based on the responses. Each POC will be reviewed and responses will be emailed in approximately 60 days. For those groups meeting the minimum POC score of 80, CURE will send a formal invitation to submit a new charter application.

Table 1	
Critical Elements	Maximum Points
Purpose and Core Values	25
Field of Membership	25
Capital	25
Subscribers	25



NCUA will accept POC applications throughout the year. You will receive a confirmation message once you successfully upload your POC. If you do not receive acknowledgement, contact CURE to investigate.

Overview

Organizing groups should review the Guide to obtain an understanding about chartering. The Guide describes every aspect of the credit union's operations. In addition, the membership survey helps you determine if you have sufficient support from the proposed field of membership (FOM) to establish a viable financial institution.

Critical Element #1: Purpose and Core Values

Background

The term “federal credit union” means a cooperative association organized for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes. Before approving an organization certificate, an investigation shall be made to determine:

- (1) whether the organization certificate conforms to the provisions of the Federal Credit Union Act;
- (2) the general character and fitness of the subscribers; and
- (3) the economic advisability of establishing the proposed Federal credit union.

Scoring for Purpose and Core Values

The evaluation for the Purpose and Core Values includes the following:

Step 1: Purpose and Core Value Review

Provide a compelling reason(s) why the formation of a new credit union is in the best interest of the proposed group. CURE will use responses from the POC submission to determine if the proposed credit union's goals and objectives align with the credit union industry's mission of, “People Helping People.”

Step 2: Scoring

CURE will score the Purpose and Core Value section of the POC based on the response provided.



Critical Element #2: Field of Membership

Background

A credit union's FOM is based on a common bond of the group or groups of people the credit union intends to serve. Every credit union must establish a legally recognized FOM, and only persons or groups within the FOM and a few others by virtue of their close relationship to the common bond group may join the credit union.

<u>Table 2. Three Types of Common Bond</u>	
Occupation	Work in the same employment entity.
Association	Members of a particular religious organization (i.e. church, mosque, synagogue, etc.) professional group, civic or fraternal group or labor union.
Community	Live, work, worship, or attend school in the same geographic area.

<u>Table 3. Three Types of Memberships</u>	
Single Common Bond (SCB)	A SCB can be occupational based: trade, industry, or profession (TIP); or associational based.
Multiple Common Bond (MCB)	A MCB may be occupational or associational based, and/or a combination of occupational and associational groups.
Community	A community charter must be based on a single, geographically well-defined local community, neighborhood, or rural district where individuals have common interest and interact.

Scoring for the Field of Membership

The evaluation process for the FOM includes the following.

Step 1: FOM Review

CURE will review each POC submission to determine if the proposed credit union meets the FOM regulatory requirements. Organizing groups that are unable to identify an acceptable FOM, will receive zero points in this area.

Step 2: Scoring

The scoring criteria for FOM section are based on the responses provided but they must be supported by need, lack of available services, and demographics of the proposed FOM.



Critical Element #3: Capital

Background

The actual costs for chartering a federal credit union will vary depending on the unique circumstances in which the credit union operates. Therefore, funding in the form of donations and grants, is necessary to cover startup costs and absorb net operating losses until the credit union achieves positive earnings and can maintain an adequate capital position. From past experience, newly chartered credit unions require approximately \$1 million in startup capital.

Scoring for Capital

Step 1: Capital

CURE will review each POC submission to determine if the organizing group has identified its operations as basic, intermediate, or complex and understands the capital required. Understanding the estimated costs for the operations will help organizing group's project how much startup capital is required to absorb operating losses and maintain capital until the credit union is profitable from operations.

Step 2: Scoring

CURE will score the Capital section of the POC based on the response provided. If an organizing group is unable to identify a credible funding source, charter approval is unlikely.

Critical Element #4: Subscribers

Background

As defined by the Federal Credit Union Act, subscribers must undergo an appropriate investigation to determine general character and fitness. Officials and employees are also required to undergo such an investigation. For purposes of the POC, seven subscribers must be listed in this section including their email address and telephone numbers.

When the formal charter application is submitted, A Report of Official and Agreement to Serve (NCUA 4012) Form is completed by each official and employee in order to perform the investigation. Be prepared to discuss each individuals anticipated contribution to chartering and the number of hours per month he or she will volunteer.



Scoring for Subscribers

Step 1: Subscribers

CURE will review each POC submission to determine if the organizing group identified at least seven individuals to serve as the proposed credit union’s subscribers. Ideally, the subscribers will have sound understanding or backgrounds in accounting, finance, business, and banking or related fields.

Step 2: Scoring

CURE will score the Subscriber section of the POC based on the response provided.

Analysis of POC Submission

The reviewers will evaluate each POC using a point scale based on the four Critical Elements *1) Purpose and Core Values 2) Field of Membership 3) Capital and 4) Subscribers*. The maximum number of points a POC application can earn is 100. A minimum of 80 points must be earned for an organizing group to receive an invitation to submit a formal charter application.

Table 4 provides a description of each Critical Element and its corresponding narrative guidance. Organizing groups must thoroughly support each Critical Element in the POC application.

<u>Table 4. Criteria</u>	
Critical Element	Description
#1 - Purpose and Core Values	<p>The organizing group’s ability to identify, understand, and describe why a newly formed credit union is needed for the proposed FOM.</p> <p><u>Narrative Guidance Purpose and Core Values</u></p> <ul style="list-style-type: none"> • Describe the economic challenges and the reasons why a new credit union is needed for the proposed FOM. Provide data to support the case. • Discuss why this matters to the organizing group and how it affects the community, area or proposed FOM.



Table 4. Criteria

Critical Element	Description
#2 - Field of Membership	<p>The organizing group’s ability to identify a FOM that meets regulatory guidelines.</p> <p><u>Narrative Guidance for FOM:</u></p> <ul style="list-style-type: none"> • Every proposed credit union must establish a legally recognized FOM. • Only persons or groups within the FOM by virtue of their close relationship to the common bond group may join the proposed credit union. • NCUA will provide preliminary approval for the proposed FOM including if the group meets NCUA’s low-income definition.
#3 - Capital	<p>The organizing group’s ability to identify and explain funding sources to cover startup costs to absorb net operating losses until it achieves positive earnings and maintains adequate capital. Please note that startup capital is not a loan, investment, or non-member deposit. Startup capital is a <u>donation</u> pledged as capital for the formation of the credit union.</p> <p><u>Narrative Guidance for Capital:</u></p> <ul style="list-style-type: none"> • The amount of funding needed varies and is contingent on the desired services and operating structure. • Explain what organizations, entities, companies, etc. will provide startup capital for the formation of the proposed credit union. • Explain what intervals the funds will be pledged to the proposed credit union. • NCUA requires commitment letters from all donors pledging money.



Table 4. Criteria	
Critical Element	Description
#4 - Subscribers	<p>The organizer group’s ability to identify seven individuals needed for the formation of the credit union. These individuals must agree to a credit check and criminal investigation. Ideally, these individuals will have backgrounds in finance, accounting, business, banking, etc. to carry out the duties and responsibilities of the proposed credit union.</p> <p><u>Narrative Guidance:</u></p> <ul style="list-style-type: none"> Subscribers must carry out the duties in good faith, in the best interests of the membership, and with the care a prudent person in a like position would use under similar circumstances.

The reviewers will use the scoring descriptions and framework listed in Table 5 to score the POC applications.

Table 5. Scoring Description and Framework		
Score	Score Range	Score Description
Exceptional	22 – 25	The responses are highly relevant and leads to a deeper understanding of how the group will accomplish the requirements for the Element.
Strong	19 – 21	The responses are clear, well-articulated, and relevant and lead to a better understanding of the Element.



Table 5. Scoring Description and Framework

Score	Score Range	Score Description
Good	16 – 18	The responses are average and not consistently well-expressed.
Fair	13 – 15	The responses are fair with limited detail.
Weak	1 – 12	The responses lack detail, are difficult to understand, insufficient, and of poor quality.

Resources

1. [Federal Credit Union Charter Application Guide](#)
 2. [Federal Credit Union Bylaws](#)
 3. [The Chartering and Field of Membership Manual](#)
 4. [NCUA Form 4012](#)
 5. [NCUA Letter to FCU Board of Directors Duties](#)
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Definitions

Below are commonly used terms in the credit union industry. These definitions are used as a reference to assist you with the POC and the formal charter application as you proceed through the application process.

Accounting System – The credit union’s record keeping system; most credit union accounting systems are computerized.

ACH – Automated Clearing House – a nationwide network that enables participating financial institutions to distribute and settle electronic payments.

Adequately Capitalized – A credit union is considered adequately capitalized when it has a net worth ratio of at least 6 percent.

Assets – Assets are items the credit union owns such as loans, cash, investments, and fixed assets.

Associational Common Bond – a common bond comprised of members and employees of a recognized association. It includes individuals (natural persons) and/or groups (non-natural persons) whose members participate in activities developing common loyalties, mutual benefits, and mutual interests.

Audit - an official examination and verification of accounts and records, especially financial accounts.

Audited Financial Statements – an organization’s financial statements which have been prepared and certified by a Certified Public Accountant.

Balance Sheet – The Balance Sheet (sometimes referred to as the Statement of Financial Condition) shows the financial condition of the credit union as of the date it represents. The credit unions assets, liabilities and equity (capital) accounts are included on the balance sheet; income and expense accounts are not included.

Board of Directors – The governing group of volunteers charged with the fiduciary responsibility of establishing policies and providing strategic direction of a credit union. As outlined in the Federal Credit Union Act, this group must consist of an odd number of individuals not less than 5 and not more than 15.

Break-Even – the point at which the credit union is neither making a profit nor operating at a loss.

Business Model – The business model describes how the credit union will define and promote itself, produce and distribute its products and services, and build or attract its market.

Business Plan – The Plan prepared by a credit union charter applicant addressing the economic advisability of a proposed charter.

Capital – A credit union’s capital is defined as the total of its regular reserves, allowance for loan and lease losses, special reserves, undivided earnings, accumulated unrealized gains or losses on available-for-sale securities, and that portion of year-to-date net income that has not yet been closed to the appropriate capital account. Capital accounts provide (1) a cushion for anticipated and unidentified losses, (2) a base for future growth, and (3) a means



by which the credit union can meet competitive pressures as they arise. Capital also provides the credit union a cost-free source of funds.

Charter – The document which authorizes a group to operate as credit union and defines the fundamental limits of its operating authority, generally including the persons the credit union is permitted to accept for membership. Charters are issued by the National Credit Union Administration for federal credit unions; state charters are issued by the designated state chartering authority.

Commitment Letter – a letter detailing the type of support, subsidies or donations an organization will provide to the proposed credit union.

Common Bond – The characteristic or combination of characteristics distinguishing a particular group of persons from the general public. Two common bonds can serve as a basis for a group forming a federal credit union; occupational – employment by the same company, related companies or in a trade industry, or profession (TIP); and associational – membership in the same association.

Community Credit Union – Credit unions whose field of membership consists of persons who live, work, worship or attend school in the same well-defined local community, neighborhood, or rural district.

Contingency Plan – A specific set of instructions in place to be followed if certain events interrupt normal business operations.

Corporate Credit Union – A credit union for natural person credit unions, providing correspondent services.

Credit Committee – Volunteers selected by the board of directors that assess and make decisions on member loan applications.

Credit Union – A member owned not-for-profit cooperative financial institution formed to provide financial services to a specified group of individuals.

Credit Union League – Leagues are trade associations located in most states and provide a wide variety of services such as education, training, and small credit union counseling. Some Leagues may also provide products and other services such as audits, legal consultation, guidance on consumer regulation, etc.

Debit Card – A debit card is a plastic payment card that provides electronic access to a member's credit union share account.

Deposit - Deposits are funds placed in a member's credit union account that can be withdrawn by the account owner.

Disaster Recovery Plan - A plan developed by the credit union's board of directors for continued business operation in the event of a disaster.

Donation – Money, subsidies, assistance and goods given to the credit union from individuals or organizations which will not be repaid.

Economic Advisability – An overall evaluation of the credit union's or charter applicant's ability to operate successfully.

Federal Credit Union Act – The enabling legislation, passed in 1934, for federal credit unions, federal insurance, the National Credit Union Administration, and the Central Liquidity Facility.



Federal Share Insurance – Insurance coverage provided by the National Credit Union Share Insurance Fund and administered by NCUA. Coverage is provided for qualified accounts in all federal credit unions and participating state credit unions.

Field of Membership – The persons (including organizations and other legal entities) a credit union is permitted to accept for membership.

Financial Statements – A presentation of financial data, including accompanying notes, derived from accounting records of the credit union, and intended to disclose a credit union's economic resources or obligations at a point in time, or the changes therein for a period of time. The balance sheet (or statement of financial condition) and income statement are the most common credit union financial statements.

Fixed Assets - Tangible assets such as land, building, furniture, etc.; also includes lease payments as defined in Part 701.36 of the NCUA Rules and Regulations.

Immediate Family Member – a spouse, child/stepchild, sibling/step-sibling, parent/stepparent, grandparent or grandchild.

Internal Controls - The process established by the credit union's board of directors, officers and employees, designed to provide reasonable assurance of reliable financial reporting and safeguarding of assets against unauthorized acquisition, use, or disposition.

Income Statement- The income statement reflects all income, expenses, gains, and losses of the credit union for the period for which prepared. Asset, liability and equity (capital) accounts are not included on the income statement.

Letter of Understanding and Agreement – an agreement between NCUA and credit union officials establishing reasonable operational goals. These are normally entered into with new charter applicants for a limited time.

Liabilities – Amounts which the credit union owes to others, such as accounts payable and borrowed money.

Loan – Money that is provided to a member that must be repaid by that member.

Loan Portfolio – A loan portfolio consists of all of the loans the credit union owns and manages.

Low-Income Designation – A designation awarded to credit unions who predominately serve low income members.

Manager – The manager is the person responsible for the day-to-day operations of the credit union.

Manual Credit Union - A non-automated credit union; a credit union without an electronic data processing (EDP) system.

Mentor – An individual who provides guidance and assistance to newly chartered, small or low-income credit unions. All new federal credit unions are encouraged to establish a mentor relationship with a trained, experienced credit union individual or an existing credit union.

Minority Depository Institution - A federally insured credit union in which a majority of its current members, a majority of its board of directors (BOD), and a majority of the community it services, as designated in its charter, falls within any of the eligible minority groups described as African American, Asian American, Hispanic American and Native American.



Mission Statement – The articulation of why an organization exists, the “business” it engages in to achieve its purpose, and the values that guide the accomplishment of the mission.

Mobile Payment - a form of transaction that uses mobile devices to make payments from a user’s credit union account or credit card account.

Multiple Common Bond – A field of membership consisting of more than one group, each of which has a common bond of occupation or association.

National Credit Union Administration – NCUA is the independent federal agency created by the U.S. Congress to regulate, charter and supervise federal credit unions. With the backing of the full faith and credit of the United States, NCUA operates and manages the National Credit Union Share Insurance Fund, insuring the deposits of account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

National Credit Union Share Insurance Fund – The NCUSIF is the federal fund created by Congress to insure member deposits in federally insured credit unions. The insurance limit was increased from \$100,000 to \$250,000 per individual depositor in 2008. Administered by the NCUA, the NCUSIF is backed by the “full faith and credit” of the U. S. Government.

Net Interest Margin – Credit unions operate by lending and investing cash to generate income, but they also pay interest to their members. A credit union’s ability to make profit depends on how much its interest income exceeds its interest expenses – a value known as net interest. Net interest margin is a percentage calculated from net interest that indicates a credit union’s return on interest-earning assets over a particular period.

Net Worth – Net worth constitutes the reserve of funds available to manage or absorb the risks to the credit union.

Occupational Common Bond – Employment by the same entity or related entities of Trade, Industry, or Profession.

Officials – Credit union officials include members of the board of directors, credit committee or supervisory committee; the President, Chief Executive Officer, Chief Financial Officer, Comptroller, General Manager, Treasurer/Manager, Executive Vice President; and attorneys and accountants of the credit union.

Once a Member, Always a Member - A provision of the Federal Credit Union Act which permits an individual to remain a member of the credit union until he or she chooses to withdraw or is expelled from the membership of the credit union. Under this provision, leaving a group that is named in the credit union’s charter does not terminate an individual’s membership in the credit union.

Organizations of Such Persons – An organization or organizations composed exclusively of persons who are within the field of membership of the credit union.

Organizers – The group of individuals organizing the formation of a credit union.

Potential Members – Individuals within the field of membership who have not joined the credit union.

Profitability – The credit union’s ability to generate earnings as compared to expenses and other incurred costs during a specific period of time.

Reserves - Earnings allocated for use for a specific purpose, such as the Regular Reserve, Undivided Earnings and the Allowance for Loan Losses accounts.



Return on Average Assets – The ROAA is an indicator of how profitable a credit union is relative to its average assets. ROAA gives an idea as to how efficient credit union management is at using its assets to generate earnings. Calculated by dividing the credit union’s annual earnings by its average assets, ROAA is displayed as a percentage.

Secondary Capital – Secondary capital is an uninsured account best described as a “subordinated” loan to the credit union. It can temporarily count as net worth. In the event of liquidation, all other debt owed by the credit union must be repaid before the secondary capital loan is repaid. Only low-income designated credit unions may accept secondary capital in accordance with the requirements in NCUA’s regulations 701.34 (b).

Senior Executive Officer – Senior Executive Officers generally include credit union’s chief executive officer (president, treasurer, manager) assistant executive officer (vice president, assistant treasurer/manager), and/or chief financial officer (controller).

Service Area – the area that can reasonably be served by the service facilities accessible to the groups within the field of membership.

Share Account – refers to a regular share (savings) account and any other account that is not a share certificate account.

Share Draft Account - an account from which the holder is authorized to withdraw shares by means of a negotiable or transferable instrument. Share drafts are equivalent to a checking account at a bank.

Single Associational Common Bond Credit Union – A credit union whose field of membership includes members and employees of a recognized association.

Single Common Bond Credit Union – A credit union whose field of membership consists of one group which has a common bond of occupation or association.

Single Occupational Common Bond Credit Union – A credit union whose field of membership consists of employees of the same entity or related entity or part of a Trade, Industry, or Profession.

Sponsor – An entity (i.e., company or organization) within the credit union’s field of membership that provides monetary support and/or subsidies such as free office space, use of company copier or staff in legal department, during the chartering process and continuing after the credit union is chartered.

StartUp Capital – Subsidies (monetary support in the form of contributions and any donated equipment) to cover all of the start-up costs, as well as the operating costs that cannot be covered from the income generated from normal operations. All verbal or written start-up capital commitments pledged must be identified and include the specific commitment and its terms. All start-up capital sources must prove they have the financial capability to provide the pledged support and provide credit union organizers with a copy of their audited financial statements as evidence.

Strategic Plan – A strategic plan is the framework an organization uses to articulate priorities and goals, and manage results. It includes strategic objectives and a description of how resources will be deployed to accomplish them.

Statement of Financial Condition – The Statement of Financial Condition (sometimes referred to as the Balance Sheet) shows the financial condition of the credit union as of the date it represents. It includes the credit unions asset, liability and equity (capital) accounts; income and expense accounts are not included on the Statement of Financial Condition.



Subscribers – As defined by the Federal Credit Union Act, subscribers are any seven or more natural persons who desire to form a federal credit union. Subscribers are responsible for preparing the charter application.

Succession Plan – a plan for identifying and developing internal people with the potential to fill key positions in the credit union as they become available.

Supervisory Committee – Appointed by the board of directors the main responsibilities of the supervisory committee are to oversee the operations of the credit union and ensure an annual audit and bi-annual verification of accounts is performed.

Surety Bond - Surety bonds provide for the recovery of losses by the dishonesty of an employee or official or by the failure of employees to faithfully perform their duties. The specific losses that will be restored by the bond are listed in the written contract with the surety company.

Trade, Industry or Profession (TIP) – a single occupational common bond credit union based on employment in a trade, industry, or profession including employment at any number of corporations or other legal entities that, while not under common ownership – have a common bond virtue of producing similar products, providing similar services, or participating in the same type of business.

Undivided Earnings - The portion of the accumulated earnings of the credit union which are available for the payment of dividends.

Contact Information

If you need to contact CURE regarding the POC application, send your request by e-mail to NewFCU@ncua.gov. Please allow 48 hours for a response.

Below is the contact information for other service areas of CURE.

- Field of Membership Expansion: DCAMail@ncua.gov
- Learning: CURELMS@ncua.gov
- For all other inquiries: CUREMail@ncua.gov
- Contact us by Phone: 703.518.6610