

## **Business Plan Guidelines**

### **Preparation and Use**

The business plan should be an integral part of the management and oversight of a financial institution (institution). It should establish the institution's goals and objectives. It is a written summary of how the business will organize its resources to meet its goals and how the institution will measure progress.

The business plan should be a comprehensive plan, which is the result of in-depth planning by the institution's organizers and management. It should realistically forecast market demand, customer base, competition, and economic conditions. The plan must reflect sound banking principles and demonstrate realistic assessment of risk in light of economic and competitive conditions in the market to be served. An institution with a special purpose or focus (for example, credit card, trust only, cash management, or bankers' bank) should address this special or unique feature in detail in the appropriate sections of the plan.

The business plan should cover three years and provide detailed explanations of actions that are proposed to accomplish the primary functions of the institution. The description should provide enough detail to demonstrate that the institution has a reasonable chance for success, will operate in a safe and sound manner, and will have adequate capital to support the risk profile.

For any institution with an Internet or alternative electronic delivery channel, the plan should contain a clear and detailed definition of the market the institution plans to serve and the products and services it will provide through electronic channels. Because the Internet has a potential global market and can reach anyone with Internet access, the selected information on market area and products and services is essential. The marketing plan should explain how the institution would achieve brand recognition.

### **Confidentiality**

Any Applicant desiring confidential treatment of specific portions of the plan and projections must submit the request in writing. The request must discuss the justification for the requested treatment. The Applicant's reasons for requesting confidentiality should specifically demonstrate the harm (for example, loss of its competitive position, invasion of privacy) that would result from public release of information (5 U.S.C. 552 or relevant state law).

Information for which confidential treatment is requested should be: (1) specifically identified in the public portion of the application (by reference to the confidential section); (2) separately bound; and (3) labeled "Confidential." The Applicant should follow the same procedure when requesting confidential treatment for the subsequent filing of supplemental information to the plan.

The Applicant should contact the appropriate regulatory agency for specific instructions regarding requests for confidential treatment. The appropriate regulatory agency will determine whether the information will be treated as confidential and will advise the Applicant of any decision to publicly release information labeled as "Confidential."

# **BUSINESS PLAN**

## **I. Table of Contents**

## **II. Executive Summary**

Describe the highlights of the plan.

## **III. Description of Business**

- A. Describe the institution's business and any special market niche, including the products, market, services, and nontraditional activities.
- B. If in a holding company structure, discuss the operations of the organization, including a brief detail of the organizational structure and interaction between the institution and its affiliates.
- C. Describe the extent, if any, that there are or will be transactions with affiliated entities or persons. Include terms.
- D. Discuss the legal form and stock ownership of the institution and any investment in subsidiaries or service corporations.
- E. For an operating company, describe the present financial condition and current resources, such as office network, staff, and customer base. Specifically discuss the strengths and weaknesses.
- F. Describe the proposed location, office quarters, and any branch structure.
- G. Discuss any growth or expansion plans, including additional branches, other offices, mergers, or acquisitions.

## **IV. Marketing Plan**

*A marketing plan should provide in detail factual support that the institution has reasonable prospects to achieve the revenue projections, customer volume, and key marketing and income targets. The analysis should be based on the most current data available, and the sources of information should be referenced. This section should contain an in-depth discussion of the major planning assumptions for the market analysis, economic, and competitive components used to develop the plans, objectives, and the basis for the assumptions.*

### **A. Product Strategy**

- 1) List and describe the general terms of the planned products and services, including activities of any subsidiaries. Discuss any plans to engage in any subprime or speculative lending, including plans to originate loans with high loan-to-value ratios.

- 2) Discuss how the institution will offer products and services over the three years, indicating any variation in the different market areas or distribution channels, and include the time frame for the introduction and the anticipated cost associated with each.
- 3) Describe the institution's plans to engage in any secondary market/mortgage banking activity, including loan participations. Discuss plans to use forward take-out commitments or engage in loan securitization. Describe any plans to engage in hedging activity to mitigate the risks of this activity. Also, discuss plans to retain recourse and servicing.
- 4) Describe the primary sources of loans and deposits and the major methods to solicit them. If using brokers or agents, provide full details of the nature and extent of all such activities, including sources, amounts, fees, and any intended tie-in of compensatory arrangements with the broker or agent.
- 5) Describe any arrangements with e-commerce businesses (for example, links to another's Web site to shop, order, or purchase goods and/or services online).

B. Market Analysis

- 1) Describe the intended target market and the geographical market area(s).
- 2) Describe the demographics of the target market population (for example, age, education, and occupation).
- 3) *For an OTS filing*, discuss in detail any current and/or proposed actions to accomplish the institution's commitment to promote home financing.

C. Economic Component<sup>1</sup>

- 1) Describe the economic forecast for the three years of the plan. The plan should cover the most likely scenario and discuss possible economic downturns.
- 2) Indicate any national, regional, or local economic factors that may affect the operations of the institution. Include an analysis of any anticipated changes in the market, the factors influencing those changes, and the effect they will have on the institution.
- 3) Describe the current economic characteristics of the proposed market(s), for example, size, income, and industry and housing patterns.
- 4) Based on the economic characteristics described previously, discuss the economic factors that influence the products and services to be offered. A more

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<sup>1</sup> If obtained, discuss any independent economic survey or market feasibility study.

in-depth discussion is warranted when different types of services are identified for different market areas in the Description of Business section.

**D. Competitive Analysis**

- 1) Compare and contrast the institution's product strategy with its principal competitors in the target market(s). Include expected results in terms of relative strength, market share, and pricing.
- 2) Discuss the overall marketing/advertising strategy, including approaches to reach target market through the marketing of brand, products, and services. Outline the specific medium that will be used, including timing and level of advertising efforts.
- 3) Discuss potential competition in the target market(s).

**V. Management Plan — Directors and Officers**

- A. Provide the number of organizers and/or directors. Provide a list of board committees and a brief explanation of the responsibilities of each committee.
- B. Describe the organizational structure and provide an organizational chart, indicating the number of officers and employees. Describe the duties and responsibilities of the senior executive officers. Describe any management committees that are or will be established.
- C. Discuss the institution's plans to address management succession, including any management training program or other available resources.

**VI. Records, Systems, and Controls**

- A. Describe the institution's current and/or proposed accounting and internal control systems, indicating any use of electronic processing systems.
- B. Describe management's proposed internal audit function. The description should set forth the independence of the department and the scope and frequency of audits. Discuss the experience and education of the audit staff. If external auditors will be used for internal audits, provide similar information for the external auditors.
- C. Describe the compliance management programs, addressing independence, scope, frequency, and staff qualifications. Discuss how the institution will respond to consumer complaints.
- D. State plans for an annual audit by independent public accountants.
- E. Discuss the functions that will be outsourced and what the institution will do in-house.

## **VII. Financial Management Plan**

### **A. Capital and Earnings**

- 1) Discuss the capital goals and the means to achieve them.
- 2) Discuss the earnings goals in terms of return on assets, net interest margin, or other profitability measurements, and summarize the strategies to achieve those goals.
- 3) Discuss the plan for raising capital and for financing growth, with particular emphasis on conformance with regulatory capital requirements.
- 4) Discuss the adequacy of the proposed capital structure relative to internal and external risks, planned operational and financial assumptions, including technology, branching, and projected organization and operating expenses. Present a thorough justification to support the proposed capital, including any off-balance-sheet activities contemplated.
- 5) Describe the debt service requirements for any debt that will be issued at the holding company level to capitalize the institution.
- 6) Discuss the use of options, warrants, and/or other benefits associated with the institution's capital.
- 7) Summarize the dividend policy.

### **B. Liquidity and Funds Management**

- 1) Discuss how the institution will identify and measure liquidity risk.
- 2) Discuss the institution's plan to monitor and control its liquidity risk, including funding sources (deposits, borrowings, securitizations). Include holding company support, if any.
- 3) Describe any plans to borrow funds from any financial institutions or other sources, including the amount, composition, interest rate, maturity, purpose, and collateral.
- 4) Discuss the type of investment securities the institution plans to purchase.

### **C. Sensitivity to Market Risk**

- 1) Discuss the institution's objectives, strategies, and risk tolerance for interest rate risk.
- 2) Discuss how the institution will identify and measure interest rate risk.

- 3) Discuss the institution's asset and liability portfolio in terms of sensitivity to interest rate changes and the impact of earnings and capital and net portfolio value.<sup>2</sup> Discuss the risk limits to control interest rate risk.
- 4) Describe any plans to use hedging activities (for example, futures, options, interest rate swaps, or other derivative instruments).

D. Credit Risk

- 1) Discuss how the institution will identify and measure credit risk.
- 2) Describe the loan review program, addressing independence, scope, frequency, and staff qualifications.
- 3) Describe the methodology used to determine the allowance for loan and lease losses.

**VIII. Monitoring and Revising the Plan**

- A. Describe how the board of directors will monitor adherence to the business plan.
- B. Describe how the board of directors will adjust and amend the plan to accommodate significant or material economic changes.

**IX. Alternative Business Strategy (Optional unless your regulator requires)**

An alternative business strategy details how an institution will operate under scenarios in which market conditions differ significantly from those projected in this business plan. This alternative business strategy should be realistic about the business risks and incorporate sound management of such risks. This alternative strategy should consider potential adverse scenarios relating to the asset or liability mixes, interest rates, operating expenses, marketing costs, and growth rates. This discussion should include realistic plans for how the bank would access additional capital, if needed, in the future and, if applicable, contingency funding plans that address strategies for managing potential liquidity fluctuations. This plan also should discuss any financial safeguards to offset unexpected costs and remain well capitalized.

Periodically, the institution should update this section, especially as the institution becomes more complex and as industry conditions change.

**X. Financial Projections**

- A. Provide financial information for opening day *pro forma* and quarterly projections for the three years of operations. Also provide annual totals for the Income Statement. The line items in the financial statements should be consistent with the Consolidated Reports

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<sup>2</sup> For OTS filing, see Thrift Bulletin 13a.

of Condition and Income or the Thrift Financial Report (Report)<sup>3</sup> so that projected items may be compared conveniently with actual performance. The following reports should be used:

Projected Balance Sheet (Schedule RC or SC)

Projected Income Statement (Schedule RI or SO)

Regulatory Capital Schedule (Schedule RI-A or CCR)

The financial statements should be presented in two ways: (1) showing the dollar amounts, and (2) as a percentage of total assets.

- 1) Describe in detail all of the assumptions used to prepare the projected statements, including the assumed interest rate scenario for each interest earning asset and interest costing liability over the term of the business plan. Also present a thorough justification to support proposed capital, including any branch expansion and off-balance-sheet activities contemplated.
  - 2) Provide the basis for the assumptions used for noninterest income and noninterest expense. Indicate the amount of lease expense, capital improvements, and furniture, fixtures, and equipment, including systems and equipment upgrades.
  - 3) Describe the assumptions for the start-up costs, volumes, expected returns, and expected time frame to introduce each new product and service.
- B. Discuss how the institution used marketing studies or surveys to support the institution's projected growth.
- C. Discuss the level of marketing expenses necessary to achieve the projected market share for both loan and deposit products. Assumptions should be consistent with those experienced by other institutions in the target market. Explain any significant variances between the assumptions in the target market.
- D. Provide a sensitivity analysis of the financial projections. A sensitivity analysis provides a realistic stress test of the major underlying assumptions used in the business plan and the resultant financial projections. For example, adjust the financials to reflect the effects of adverse changes in the interest rate environment, changes in the asset/liability mix, higher than expected operating expenses, marketing costs, and/or growth rates.

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<sup>3</sup> See FDIC's Web site, <http://www.fdic.gov/regulations/resources/call/crinst/callinst.html> or <http://www.ots.treas.gov> (link to TFR form and instructions).