



Proof of Concept Application Instructions

Table of Contents

Introduction	2
Overview	3
Critical Elements	
• Purpose and Core Values.....	3
• Field of Membership	4
• Capital.....	5
• Subscribers	6
Analysis of Proof of Concept Criteria.....	6
Scoring Description and Framework.....	9
Resources	9
Contact Information	10
Disclaimer	10



Introduction

The NCUA's Office of Credit Union Resource and Expansion is responsible for issuing a credit union's charter. By submitting your information through our automated system, you demonstrate to the 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 overcome.

The NCUA calls this information collection process the Proof of Concept. Using the Proof of Concept is not a requirement. However, the NCUA strongly recommends organizing groups take advantage of the tool, which facilitates the approval of charter applications by offering prompt and timely feedback on their initial plan. Once the review of your Proof of Concept submission is complete, NCUA will advise you to:

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

The NCUA strongly recommends that each organizing group perform its due diligence in advance of applying for a charter to obtain a clear understanding of the duties and responsibilities required for charter approval and credit union operations. Appendix B to Part 701 of the NCUA's Rules & Regulations - Chartering and Field of Membership Manual (Chartering Manual), is the primary and authoritative chartering reference. NCUA will evaluate charter application per the requirements of the regulations.

NCUA will review and score each **Critical Element** in the Proof of Concept using a 100-point scale, providing a score of up to 25 points for each element. We will strive for a 60-day response time from the date of submission. For groups meeting the minimum score of 80, the NCUA will send a formal invitation to submit a full charter application. While we strongly encourage organizing groups to follow the Proof of Concept process, it is not a requirement. An organizing group may submit a full charter application regardless of its Proof of Concept score. NCUA does not score full charter applications, but evaluates them on the overall merits of the application.



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

The NCUA will accept Proof of Concept applications throughout the year. You will receive a confirmation message once you successfully upload your Proof of Concept responses. If you do not receive acknowledgement, please contact the NCUA’s Office of Credit Union Resources and Expansion at (703) 518-6610 or by email at NewFCU@ncua.gov.

Overview

Organizing groups should review the Chartering Manual to obtain an understanding about the chartering process. The Chartering Manual 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 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, that is chartered by the federal government.¹ Before approving an organization certificate, the NCUA will investigate to determine various factors related to the fitness and viability of the proposed credit union. The first critical element of the Proof of Concept helps define those factors.

¹ The Federal Credit Union Act



Scoring for Purpose and Core Values

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

Step 1: Purpose and Core Value Review

The NCUA must be satisfied the institution will be viable and it will provide needed services to its members. Economic advisability, which is the key factor in determining whether a potential charter will have a reasonable opportunity to succeed, is essential in order to qualify for a credit union charter. An important consideration is the degree of support from the field of membership. The charter applicant must be able to demonstrate that membership support is sufficient to ensure viability.

Provide compelling reasons why the formation of a new credit union is in the best interest of the proposed group. The NCUA will use responses from the Proof of Concept 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

The NCUA will score the Purpose and Core Value section based on the responses provided.

Critical Element #2: Field of Membership

Background

The common bond of the group or groups of people the credit union intends to serve is the credit union’s field of membership. The field of membership defines those persons and entities eligible for membership, and only persons or groups within the field of membership and a few others by virtue of their close relationship to the common bond group may join the credit union.²

Table 2. Three Types of Common Bond³	
Occupation	Employment in a single corporation or other legal entity makes that person part of a single occupational common bond.
Association	A single associational federal credit union may include in its field of membership, regardless of location, all members and employees of a recognized association.

² Appendix B to Part 701 – Chartering and Field of Membership Manual

³ Appendix B to Part 701 – Chartering and Field of Membership Manual



Table 2. Three Types of Common Bond³

Community	Persons who live in, worship in attend school in, or work in the community or rural district. Businesses and other legal entities within the community boundaries or rural district may qualify for membership. The geographic boundaries must be clearly defined and the area must be a well-defined local community or rural district.
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Table 3. Three Types of Memberships⁴

Single Common Bond	One group that has a common bond, occupation, or association.
Multiple Common Bond	More than one group, each of which has within the group a common bond of occupation or association.
Community	Persons or organizations within a well-defined local community, neighborhood, or rural district.

Scoring for the Field of Membership

The evaluation process for the field of membership includes the following:

Step 1: Field of Membership Review

The NCUA will review each submission to determine if the proposed credit union meets the field of membership regulatory requirements. Organizing groups that are unable to identify an acceptable field of membership will receive zero points in this area.

Step 2: Scoring

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

Critical Element #3: Capital

Background

The actual costs for chartering a federal credit union vary depending on the unique circumstances in which the credit union 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. Start-up funding in the form of

⁴ The Federal Credit Union Act



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 suggests that newly chartered credit unions require approximately \$1 million in startup capital to demonstrate economic advisability and viability.

Scoring for Capital

Step 1: Capital

The NCUA will review each 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 groups 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

The NCUA will score the Capital section of the Proof of Concept based on the responses 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 Proof of Concept, at least seven subscribers must be listed in this section including their email address and telephone numbers.⁵

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 individual's anticipated contribution to chartering and the number of hours per month he or she will volunteer.

Scoring for Subscribers

Step 1: Subscribers

The NCUA will review each 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.

⁵ Appendix B to Part 701 – Chartering and Field of Membership Manual



Step 2: Scoring

The NCUA will score the Subscriber section of the Proof of Concept based on the response provided.

Analysis of Proof of Concept Submission

The NCUA’s reviewers will evaluate each submission 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 an application can earn is 100. A minimum of 80 points is the benchmark for an organizing group to receive an invitation to submit a formal charter application.

Table 4 provides a description of each Critical Element and relative guidance. Organizing groups must thoroughly support each Critical Element in the Proof of Concept application.

<u>Table 4. Criteria</u>	
Critical Element	Description
#1 - Purpose and Core Values	<p>The organizing group must identify, understand, and describe why the proposed field of membership needs, and can support, a newly chartered credit union.</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 the proposed field of membership needs a new credit union. Provide data to support the case, including the type of products and services needed and the credit union plans to offer. • Economic advisability, which is the key factor in determining whether a potential charter will have a reasonable opportunity to succeed, is essential in order to qualify for a credit union charter. An important consideration is the degree of support from the field of membership. • Discuss how the proposed credit union will benefit the membership and the greater community at large. How are economic and market conditions conducive to the success of a new credit union, and conversely, what challenges exist in this area.



Table 4. Criteria

Critical Element	Description
#2 - Field of Membership	<p>The organizing group’s ability to identify a field of membership that meets regulatory guidelines.</p> <p><u>Narrative Guidance for Field of Membership</u></p> <ul style="list-style-type: none"> • Every proposed credit union must establish a legally recognized field of membership. • Only persons or groups within the field of membership by virtue of their close relationship to the common bond group may join the proposed credit union. • Discuss the number of potential members you expect will initially participate in the proposed credit union and the potential for membership growth in the first few years of operation. How did you determine this number? Describe the method used to determine initial and ongoing potential members’ participation.
#3 - Capital	<p>The organizing group’s ability to identify and explain funding sources to cover start-up costs to absorb net operating losses until it achieves positive earnings and maintains adequate capital. Please note that start-up capital is not a loan, investment, or non-member deposit. Start-up 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 pledged funds will be allocated to the proposed credit union. • The 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, or banking, among others, to carry out the duties and responsibilities of the proposed credit union.</p> <p><u>Guidance for Subscribers</u> 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. In identifying subscribers consideration should be given to:</p> <ul style="list-style-type: none"> • An ability to manage their own personal finances effectively. • Their educational or work experience related to finance, accounting, business, or banking. • A willingness and ability to actively engage and commit the time necessary, particularly in the organization and start-up phases of the proposed credit union.

Scoring Description and Framework

The NCUA’s reviewers will use the scoring descriptions and framework listed in Table 5 to score the Proof of Concept 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, articulate, relevant, and lead to a better understanding of the element.
Good	16–18	The responses are average and not consistently well expressed.
Fair	13–15	The responses are fair with limited detail.



Table 5. Scoring Description and Framework

Score	Score Range	Score Description
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 Federal Credit Unions, 11-FCU-02, “Duties of Federal Credit Union Boards of Directors”](#)

Contact Information

If you need to contact the NCUA regarding the Proof of Concept 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 services provided the NCUA’s Office of Credit Union Resources and Expansion.

- Field-of-Membership Expansion: DCAMail@ncua.gov
- Training: CURELMS@ncua.gov
- For All Other Inquiries: CUREMail@ncua.gov
- Contact Us By Phone: (703) 518-6610



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