



STATE OF MICHIGAN

DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES

LANSING

GRETCHEN WHITMER
GOVERNOR

ANITA G. FOX
DIRECTOR

TO THE APPLICANT

RE: Application for Conversion to a State-Chartered Credit Union

In response to your request, please find the enclosed Application for Conversion to a State Credit Union and related reference materials.

Prior to filing an application with the Department of Insurance and Financial Services (DIFS), it is recommended that authorized representatives of your credit union meet with DIFS personnel to discuss the prospective conversion. You may contact the Corporate Activities and Risk Assessment office at 517-284-8822 to schedule a meeting.

The National Credit Union Administration (NCUA) should be notified of the proposed conversion. Throughout the conversion process, DIFS should be notified of any communication (oral or written) with NCUA regarding this application.

An original, signed and complete application must be submitted to this office. Please refer to the Michigan Credit Union Act (Act), PA 215 of 2003, as amended, for the statutory criteria to be addressed in the conversion process.

After receipt and review of the completed application, the scope of the conversion examination, as required by Section 376(1)(d) of the Act, will be determined. You will then be contacted regarding the scheduling of the examination.

Enclosures

Application for Conversion to a State-Chartered Credit Union

Considerations for Approval

Section 376 of the Michigan Credit Union Act of 2003, as amended, MCL 490.376 sets forth the statutory requirements and limitations by which a federal/foreign credit union may be converted into a Michigan state-chartered credit union. Among other things, the conversion must be approved by the Director of the Department of Insurance and Financial Services. The approval of the Director shall be based on an examination of the federal/foreign credit union and of the plans and proceedings had by its directors and members with respect to conversion.

The Director generally will approve an application by a federal/foreign credit union to convert to a state-chartered credit union provided the applicant meets all statutory criteria, and when such approval is consistent with the basic objective of maintaining a safe and sound credit union system. In determining the qualifications of an applicant for conversion, the following factors will be evaluated and considered:

- A. **Overall Condition:** The applicant's general condition, as disclosed by DIFS' examination or analysis, should be satisfactory. Significant problems or serious deficiencies will normally preclude approval unless the Director is satisfied the applicant will correct the problems and eliminate the deficiencies.
 1. **Capital Adequacy:** The applicant should have, and be committed to the maintenance of, a capital structure which is adequate for the conduct of its business and the protection of its members. The credit union is expected to maintain capital commensurate with the risks to the institution and the ability of management to identify, measure, monitor, and control these risks.
 2. **Asset Quality:** The applicant should not have an undue amount of classified assets, particularly in relation to its capital and reserves. The applicant should demonstrate sound credit risk administration practices.
 3. **Management:** The applicant's management should have demonstrated the ability to recognize and correct deficiencies and to supervise a safe and sound credit union operation. The overall capability, attentiveness, integrity, and record of management, together with its policies, should be without significant criticism. The applicant should not have had serious or frequent violations of law. A sound system of internal routine, controls and audit should be in place.
 4. **Earnings:** The applicant should reflect a satisfactory earnings history and trend, be able to forecast adequate future earnings, and have plans for ensuring sustainable earnings sufficient to support its current and projected level of operations and capital.
 5. **Liquidity:** The applicant's liquidity, as reflected by its asset mix, liability structure and its deposit trends and volatility, should be adequate to efficiently and economically accommodate decreases in its shares and deposits or other funding liabilities, as well as to fund appropriate changes or increases in its assets. The applicant's management should demonstrate adequate funds management practices to ensure liquidity is not maintained at a high cost or through undue reliance on funding sources which may not be available in times of financial stress or adverse changes in market conditions.
 6. **Sensitivity to Market Risk:** The applicant should ensure it has adequate capital and earnings in relation to its level of market risk exposure. In addition, the applicant's management should have an adequate ability to identify, measure, monitor, and control market risk relative to the credit union's size and nature and complexity of its activities.

- B. **Reasons for Conversion:** The applicant should provide sound business reasons for seeking to be a state-chartered credit union. The applicant should demonstrate the benefits that will accrue to the credit union because of a conversion and indicate in what ways it will be more successful with a state charter. An application to convert should not be motivated solely by supervisory pressures from other regulatory authorities.
- C. **Proceedings of Directors and Members:** The application for conversion should be complete and accurate and filed with original signatures where applicable. The applicant should furnish full documentation of the proceedings had by its directors and members as required by law and as more fully described in the instruction given in connection with filing the application.

Complete responses will expedite processing of the application. Amendments to the application must be submitted in writing. Each amendment must clearly note the specific section, page, and item which is to be amended. Substantive amendments will be acknowledged in writing by DIFS.

It is the responsibility of the applicant(s) to ensure that the all applicable state and federal statutory requirements in connection with this application are satisfied.

Unsatisfactory performance with respect to these or any other factors considered by the Director can result in disapproval of a conversion application. In all instances, the applicant will be made aware of weaknesses, which in the Director's opinion preclude approval of the conversion. An applicant will be given the opportunity to correct problems and eliminate deficiencies or to submit a plan of correction. Any corrective actions effected, and any plan of correction should be reasonable and will be subject to acceptance by DIFS.

The Director of DIFS will consider the application with respect to the general business of the credit union and the applicable state and federal statutes and will issue a written decision on the application. An application may be formally withdrawn by written request of the Applicant, or it must be allowed to proceed to a decision. If approval of the conversion application is granted, the applicant will be further instructed as to the requirements necessary to complete its conversion to a state-chartered credit union. When all statutory requirements and other conditions have been satisfied, a charter will be issued authorizing the applicant to commence operations as a state-chartered credit union as of a specified date. A completed application should be mailed to:

DIFS OFFICE OF CREDIT UNIONS
ATTENTION: CORPORATE ACTIVITIES AND RISK ASSESSMENT
P.O. BOX 30220
LANSING, MI 48909-7720

Or fax to: **517-284-8846**
Or Email to: DIFS-OCU@michigan.gov

Any questions pertaining to the completion of this application should be directed to Corporate Activities and Risk Assessment, telephone 517-284-8822.

Application for Conversion to a State-Chartered Credit Union

The information contained on Pages 4 through 7 of this form is available for public inspection, examination, or copying pursuant to the provisions of the Freedom of Information Act, PA 442 of 1976, MCL 15.231 *et seq.*, and Section 205 of the Michigan Credit Union Act of 2003; MCL 490.205.

Existing credit union information

Existing Credit Union Name		Date of Application
Existing Credit Union Address		City, Village or Township
County	State	Zip Code

Persons authorized to submit this application

Name	Title	Date
Name	Title	Date

Representative responsible for responding to questions relating to this application

Name	Title	Telephone Number
Address	City, Village or Township and State	Zip Code

Documentation

1. Provide a certified copy of the Board of Directors resolution which authorized submission of the application for conversion of charter.
2. Provide a statement of the specific business reasons supporting the request for conversion.
3. Provide a copy of the Proposed Notice of Special Meeting of the Members (NCUA Form #4221).
4. Provide a copy of the Proposed Ballot to be mailed for membership vote (NCUA Form #4506).
5. Provide a copy of the Application for Insurance of Accounts (NCUA Form #9600) filed with NCUA.

Common Bond and Field of Membership

State the field of membership of the federal/foreign credit union. Use the exact wording of the present charter articles of incorporation or bylaws. (A copy may be attached).

Is the field of membership of the proposed credit union to be the same as that of the federal/foreign credit union? Yes No

If no, explain the expected change and the reason for the change. Also, provide the exact wording of the proposed field of membership language. (A copy may be attached.)

The number of persons estimated to be potential members is _____. (This number can be that which is reflected on the recent NCUA periodic report.)

The number of persons expected to be members of the credit union at conversion is _____. (This number can be that which is reflected on the recent NCUA periodic report.)

The par value of the shares of the proposed credit union shall be \$_____. (Shall not exceed \$100.00.)

Sponsor/Business Affiliation

If applicable, provide the complete name of the sponsor and describe the business or activity of the sponsor.

If the credit union name refers to the sponsor name, has this reference been discussed with and approved by the sponsor? Yes No

Important: If authorization for use of the sponsor name has been obtained, include evidence of the authorization on sponsor letterhead, signed by an authorized sponsor official.

Application for Conversion to a State-Chartered Credit Union

The following information will be utilized to evaluate the safety and soundness of the request and is provided subject to Section 207 of the Michigan Credit Union Act of 2003; MCL 490.207. The information provided under this Section will be kept confidential and privileged and is not subject to discovery or any request under the Freedom of Information Act, 1976 PA 442, MCL 15.231 et seq.

1. Provide a schedule of delinquent loans which are classified as: 2 to 6 months delinquent; 6 to 12 months delinquent; and 12 months and over delinquent.
2. Provide a list of the ten (10) largest unsecured loans which were booked as of the reported financial information date.
3. Provide a list of the ten (10) largest secured loans (excluding real estate loans) which were booked as of the reported financial information date.
4. Provide a list of the ten (10) largest real estate secured loans which were booked as of the reported financial information date.
5. Provide a list of the ten (10) individuals with the largest aggregate indebtedness as of the reported financial information date.
6. Provide a list of the investments which were booked as of the reported financial information date.
7. Provide standard financial and statistical reports as of the most recent month end.
8. Provide a copy of each management policy, as follows:
 - Asset / liability management policy
 - Capital policy
 - Investment policy
 - Lending and lending-related policies
 - Liquidity policy
 - Loan collection policy
 - Bank Secrecy Act policy
 - Information Technology policies

9. Provide the most recent audit report, management letter, and management's response to items in the management letter. Provide the name and address of the party which performed the audit and the number of consecutive years which the party has performed the audit.
10. Provide the most recent NCUA and/or state examination report, and response to all items of comment contained in the Examination Overview section of the report.

Management Systems

Describe the existing bookkeeping and accounting functions of the credit union. Please explain if any change in these functions is expected.

Describe the existing data processing system of the credit union if applicable. If any change in this system is expected, please explain the change.