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. The forecasts of market demand, customer base, competition, and economic conditions should be realistic. 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 (i.e., trust only and credit card) should address this special or unique feature in detail in the appropriate sections of the plan.

The business plan should be at least a three-year plan, which provides 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 an institution with an Internet or alternative delivery channel, the plan should contain a clear and detailed definition of the market the institution will serve and the products and services it will provide. An Internet operation has a potential global market of anyone with Internet access. The selected population information is essential to understand the risks associated with a global market. The marketing plan should explain how the institution would achieve brand recognition.

Confidentiality

In general, requests for confidential treatment of specific portions of the plan and exhibits must be submitted in writing and must discuss the justification for the requested treatment. The request for confidentiality should specifically demonstrate the harm (e.g., to its competitive position, invasion of privacy) that would result from public release of information (5 USC 552). 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." An Applicant should follow the same procedure regarding a request for confidential treatment with regard to the subsequent filing of supplemental information to the application.

An Applicant should contact the appropriate regional office for specific instructions regarding requests for confidential treatment. The OTS will determine whether the information submitted as confidential will be so regarded and will advise the Applicant of any decision to make available to the public information labeled as "Confidential." OTS will not treat as confidential the portion of the business plan that describes how the institution will meet the Community Reinvestment Act objectives.

BUSINESS PLAN

I. Table of Contents

II. Executive Summary

Describe the highlights of the plan. If part of a holding company structure, the summary should also discuss the operations of the organization, including a brief detail of the organizational structure and the interaction (synergies) between the institution and its affiliates.

III. Description of Business

A. Provide a description of your business, including the products, market, and services as well as a thorough description of the market niche (what makes your business unique).

B. Discuss the legal form and stock ownership, and any investment in subsidiaries or service corporations.

C. If applicable, describe the institution's present financial condition and current resources, such as, branch network, staff, and customer base. Specifically include a discussion of the institution's strengths and weaknesses.

D. Describe the location, office quarters, and any branch structure. Discuss any expansion plans, including additional branches or other offices.

IV. Marketing Plan

Note: A marketing plan should contain a detailed discussion that provides 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 a detailed, in-depth discussion of the major planning assumptions for the market analysis, economic, and competitive components that were used to develop the plans and objectives and the basis for the assumptions.

A. Product Strategy

1. List all planned products and services (include activities of any subsidiaries). Include a description of the general terms of the products and services. Discuss any plans to engage in any sub-prime or speculative lending, including plans to originate loans with high loan-to-value ratios.
2. Generally discuss how the institution will offer products and services over the three years, indicating any variation in the different market areas, and include the time frame for introduction and the anticipated cost associated with each.
3. Please describe the institution's plans to engage in any secondary market/mortgage banking activity, including loan participations. Discuss plans to utilize forward

take-out commitment or engage in loan securitization. Describe any plans to engage in hedging activity to mitigate the risks of this activity. Also, discuss plans for the retention of recourse and servicing.

4. Briefly describe the primary sources of loans and deposits and the major methods used to solicit them. If using brokers or agents, provide full details as to 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. Outline in detail what functions will be outsourced and what the institution will do in-house. For functions that will be conducted by a third party, discuss how management will monitor the party's adherence to its arrangements.
6. Describe any arrangements with other E-commerce businesses.

B. Market Analysis

1. Describe the intended target market and the geographical market area(s). Provide a map that specifically identifies each market area. Collectively, the maps should delineate areas from which the organizing group expects the proposed bank to draw approximately 75 percent of its business.
2. Describe the demographics of the target market population (age, education, and occupation).
3. Discuss in detail any current and/or proposed actions to accomplish the institution's commitment to promote home financing.

C. Economic Component[1]

1. Describe the economic forecast for the three years of the plan. The plan should cover the most likely and worse case scenarios.
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. Discuss the economic factors that influence the products and services to be offered. A more in-depth discussion is warranted where different types of services are identified for different market areas in the Description of Business section.

D. Competitive Analysis

[1] If obtained, discuss any independent economic survey or market feasibility study.

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

V. Management Plan

A. Directors and Officers

1. Provide the number of organizers and/or directors. Identify director committees and provide a brief explanation of the responsibilities of each committee.
2. 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.
3. Discuss the institution's plans to address management succession, including any management training program or other available resources.

B. Transactions with Affiliates

1. Describe the extent, if any, that there are or will be transactions with affiliated entities or individuals.

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. Discuss the institution's internal audit function, including loan review and compliance management programs. This discussion should set forth the independence and scope of the department and the frequency of audits. Discuss the experience and education of the audit staff. If external auditors will be used for internal audit, provide similar information for the external auditors.

C. State plans for an annual audit by independent public accountants.

D. Discuss the Internet systems and security.

1. Outline the proposed or existing systems architecture and any proposed changes or upgrades. This plan need not include a description of the institution's entire data architecture, but it should include a detailed outline of the systems to be employed. The information should be sufficient to convince the primary regulator that:

- The operation will work within existing technology.
- The operation is suitable to the type of business in which the institution will engage.
- The security software and procedures will be sufficient to protect the institution from unauthorized tampering or access.
- The organizers and directors have given sufficient thought to the entire technology plan.

Note: The examiners will need a more detailed description of the institution's information system architecture when the exam team reviews its implementation. The review will include an evaluation of internal system policies and procedures as well as a review of any testing conducted on the system, e.g., "hacker" tests or other such tests of system vulnerability to unauthorized access. Independent tests should cover general and environmental controls as well as audit, monitoring, and balancing controls. Independent testing will provide an objective opinion on the adequacy of these controls.

2. Provide lists or descriptions of the primary systems and flowcharts of the general processes. The level of detail in these system descriptions should be sufficient to enable verification of the cost projections in the pro formas with respect to reasonable practices and market prices.
3. Security - physical and logical components. Describe the system and discuss the technologies used and key elements for the security controls, internal controls, and audit procedures.
4. Describe the process and controls that will be followed to verify and authenticate electronic banking customers.

Note: De Novo institutions must submit the final internet system and operation architecture plans for the regulatory review and approval. In addition, prior to opening and before implementation, the institution's computer system must undergo successfully a comprehensive security review by an objective and qualified source, including adequacy of protection against unauthorized external access.

VII. Financial Management Plan

A. Capital Adequacy

1. Discuss the capital goals and the means to achieve these goals.
2. Discuss the plan for raising capital <u>initially</u> and for financing growth, with particular emphasis on conformance with regulatory capital requirements.
3. Describe any plans for the payment of dividends.

B. Liquidity (Funds Management)

Discuss the institution's plan to manage its liquidity risk, including funding sources (deposits, borrowings, securitizations). Include holding company support, if any.

C. Interest Rate Risk Management

1. Discuss the advantages and disadvantages of the proposed asset/liability mix, including a net interest margin analysis and any actions that will be taken to reduce major exposures through appropriate risk management techniques and systems.
2. Discuss the institution's current and/or proposed asset and liability portfolio in terms of sensitivity to interest rate changes and the impact of earnings and capital and net portfolio value.[2] When available, compare this with the exposure limits established by management.
3. Describe any plans to use hedging activities (futures, options, interest rate swaps, and derivative instruments).

D. Borrowings

1. Describe any plans to borrow funds from any financial institutions or other sources, including the amount, composition, interest rate, maturity, and purpose.
2. Describe the debt service requirements for any debt that will be issued at the holding company level to capitalize the institution.

E. Other

1. Discuss the use of options, warrants, and/or other benefits associated with the institution's capital.
2. If applicable, discuss any plans to grow through merger or acquisition activity, including, at a minimum, the effect on staffing, physical space needs, capital, operating systems capability and compatibility, and management.
3. Discuss the institution's plans to acquire investment securities.

VIII. Monitoring and Revising the Plan

A. Describe how the board of directors will monitor adherence to 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

The institution must develop a comprehensive alternative business strategy detailing how it

[2] see Thrift Bulletin 13a.

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 must 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 to remain well capitalized.

X. Financial Projections

A. Provide financial information for opening day pro forma and quarterly projections for the three years of operations. The line items in the financial statements should be consistent with the Thrift Financial Report (Report) so that projected items may be conveniently compared 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)

However, Report items may be grouped into the major Report categories. 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 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.
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.
4. Describe the methodology used to determine allowance for loan and lease losses.

B. Discuss how marketing studies or surveys were used to support the projected growth of the institution. In addition, discuss the level of marketing expenses necessary to achieve the level of projected market share for both loan and deposit products. Assumptions should be consistent with those experienced by other institutions in the target market. Significant variances between the assumptions in the target market should be explained.

C. Using the Alternative Business Strategy, provide a sensitivity analysis on the financial projections. For example, adjust the financials to reflect the effects of adverse changes in the interest rate environment or asset/liability mix would have.

Form 1 – Balance Sheet

The Balance Sheet should be prepared showing each quarter end starting with the most current actual quarter end and projecting each quarter for years 1, 2, and 3. The balance sheet should be presented in two ways: (1) showing dollar amounts, and (2) as a percentage of total assets.

This balance sheet format is consistent with the TFR, but may show less detail if certain line items are not significant. Additional detail may be included, but these items at a minimum, should be shown.

ASSETS	TFR Item SC	COMMENTS *This column provides brief reference information. Additional information on individual line items is available in the TFR manual.*
Cash and NonInterest-Earning Deposits	110	
Total cash, noninterest earning deposits, and investment securities	10	Use one or more line items to show the amounts and types of investment securities. The line items should provide sufficient detail so that one can conclude that the institution's investment policy objectives are being met. State the amount of securities designated as "held-to-maturity," "available-for-sale," and "trading." Separately state the categories in the balance sheet, or provide a separate schedule or narrative description. The TFR has separate line items for accrued interest receivable -SC 190 and GVAs SC199. These line items are optional for the plan. State whether you will have GVAs for your investment portfolio. If so, provide an explanation.
Mortgage Pool Securities	20	Provide sufficient detail so that one may review and conclude that the institution's investment policy objectives are being met. State the amount of securities designated as "held-to-maturity," "available-for-sale," and "trading." Separately state the categories in the balance sheet, or provide a separate schedule or narrative description. The TFR has separate line items for accrued interest receivable - SC 220 and GVAs SC 227. These line items are optional for the plan. State whether you have GVAs for your mortgage pool securities portfolio. If so, provide an explanation.
Construction 1-4s	230	Construction loans should be reported net of loans in process.
Construction 5+, and NonResidential	235 240	Construction loans should be reported net of loans in process. If the level for each activity is significant, report these line items separately, otherwise combine them.
Permanent 1-4 unit residential loans.	250 253	SC 250 is "closed-end first mortgages and junior liens" and SC 253 is "revolving, open-end loans." These two items may be combined, but report them separately if the level of SC 253 is significant.

Form 1 – Balance Sheet

ASSETS *(continued)*	**TFR Item SC**	**COMMENTS** *This column provides brief reference information. Additional information on individual line items is available in the TFR manual.*
Permanent 5+, nonresidential, and land loans	256 260 265	If the level of each activity is significant, report these line items separately, otherwise combine them.
Accrued Interest Receivable, and Advances for Taxes and Insurance	272 275	
Allowance for Loan and Leases Losses on Mortgage Loans	283	
Total Mortgage Loans	23	
Commercial Loans	32	(Non-real estate) Provide detail by type of loan if portfolios are significant.
Consumer Loans	34	Provide detail by type of loan if portfolios are significant.
Accrued Interest Receivable	348	
Allowance for Loan and Lease Losses on NonMortgage Loans	357	
Total NonMortgage Loans	30	
REO	40	Report REO net of GVAs
REI	45	Report REI net of GVAs
Office Premises & Equipment	55	
Goodwill and Other Intangible Assets	660	

Form 1 – Balance Sheet

ASSETS *(continued)*	**TFR Item SC**	**COMMENTS** *This column provides brief reference information. Additional information on individual line items is available in the TFR manual.*
All Other assets		Use one or more line items to show the amounts and types of “other assets.” The total amount of “other assets” should tie to the sum of TFR items 50, 642, 644, 655, 690, and 699 if those items were reported separately.
Total Assets	SC 60	

LIABILITIES	**TFR Item SC**	**COMMENTS** *This column provides brief reference information. Additional information on individual line items is available in the TFR manual.*
Net deposits	710	
Advances from FHLB	720	
Federal Funds Purchased and Securities Sold Under Agreement to Repurchase	730	
Subordinated Debt (including mandatory convertible securities)	735	
CMOs (including REMICs) issued	740	
Other Mortgage Collateralized Securities Issued	745	
Other Borrowings	760	
Total Borrowings	72	
Other Liabilities		The sum should tie to the sum of TFR line items 75 “other liabilities,” 783 “escrows,” and 715 “unamortized yield adjustments on deposits,” if those items were reported separately

Form 1 – Balance Sheet

LIABILITIES *(continued)*	**TFR Item SC**	**COMMENTS** *This column provides brief reference information. Additional information on individual line items is available in the TFR manual.*
Total Liabilities	70	
Redeemable Preferred Stock/Minority Interest	799	

CAPITAL	**TFR Item SC**	**COMMENTS** *This column provides brief reference information. Additional information on individual line items is available in the TFR manual.*
Perpetual Preferred Stock	812 814	812 is Cumulative, 814 is Noncumulative. Report these items separately if amount is greater than zero.
Common Stock - Par Value	820	
Paid in Excess of par	830	
Unrealized Losses on Available for Sale Securities	860	
Retained Earnings	880	
Other Components of Equity Capital	890	Describe if amount is different than 0.
Subtotal Equity Capital	80	
Total Liabilities, Redeemable Preferred Stock/ Minority Interest, and Equity Capital	90	

Form 2 – Income Statement

The Income Statement should be prepared beginning with the most current actual quarter, and projected <u>for each quarter</u> for Years 1, 2, and 3. The income statement should be presented in two ways: (1) showing dollar amounts, and (2) as a percentage of average total assets.

INCOME STATEMENT **Show these items at a minimum.**	**TFR Item SO**	**COMMENTS** **Format is consistent with the TFR**
Interest Income		
Deposits/Investment	110	
Mortgage Pool Securities	120	
Mortgage Loans	140	
Commercial Loans	160	
Consumer Loans	170	
Amortization of Deferred Gain/Losses on Asset Hedges	180	
Subtotal: Interest Income	11	
Interest Expense		
Deposits	215	
Advances from FHLB	266	
Subordinated Debentures	230	
Mortgage Collateralized Securities Issued	240	
Other Borrowed Money	260	
Other Interest Expense		Should tie to sum of TFR items SO 215, SO 280, SO 290, minus SO271, if those items were reported separately.
Subtotal Interest Expense	21	
Net Interest Income Before Provision for Losses on IBA	311	
Provision for Losses on IBA	321	
Net Income After Provision for Losses on IBA	331	
NonInterest Income		
Mortgage Loan Servicing Fees	410	
Other Fees and Charges	420	
Other NonInterest Income		Should tie to sum of TFR items SO 430, 461, 465, 467, 475, 477, 485, and 491, if those items were reported separately.
Subtotal NonInterest Income	40	

Form 2 – Income Statement

INCOME STATEMENT **Show these items at a minimum** *(continued)*	**TFR Item SO**	**COMMENTS** **Format is consistent with the TFR**
NonInterest Expense		
All Personnel Expense	510	
Office Occupancy Expense	530	
Amortization of Goodwill	560	
Other NonInterest Expense		Should tie to sum of TFR items SO 510, 540, 550, 570, and 580, if those items were reported separately.
Subtotal NonInterest Expense	51	
Income (Loss) Before Income Tax	60	
Federal Taxes	710	
State /Local/Other Taxes	720	
Extraordinary Items	811	Net of tax, and cumulative effect of Changes in Acctg Principles
Net Income (Loss)	91	

Form 3 – Statement of Changes in Stockholder's Equity

A forecast of the changes in stockholders' equity should be prepared in a format substantially similar to the format shown here:

Beginning Stockholders Equity Year 1	
Net Income – Year 1	
Cash Dividends Declared	
Repurchase of Stock	
Other Comprehensive Income	
Other Changes	
Ending Stockholders Equity Year 1	
Net Income – Year 2	
Cash Dividends	
Repurchase of Stock	
Other Comprehensive Income	
Other Changes	
Ending Stockholders Equity Year 2	
Net Income – Year 3	
Cash Dividends	
Repurchase of Stock	
Other Comprehensive Income	
Other Changes	
Ending Stockholders Equity Year 3	

Form 4 – Table of Regulatory Capital Levels

This schedule should be prepared beginning with the most current quarter, and projected for each quarter for Years 1, 2, and 3. Provide supporting schedules for each capital level.

STOCKHOLDER'S EQUITY	Dollar Amount	Percent %
Tangible Capital		
Core Capital		
Risk-Based Capital		

Form 5 – Table of Loan Origination Levels

A forecast of loan origination levels should be prepared in a format substantially similar to the format here:

	TFR Item	**Year 1**	**Year 2**	**Year 3**
Construction 1-4s	230			
Construction 5+	235			
NonResidential	240			
Permanent 1-4 unit Residential loans.	250 253			
Permanent 5+,	256			
Permanent Nonresidential	260			
Land Loans	265			
Total Mortgage Loans	23			
Commercial Loans (non-real estate)	32			
Consumer Loans	34			

Form 6 – Interest Rate Assumptions for New Production

A forecast of interest rate assumptions should be prepared in a similar format as presented here:

		Year 1				Year 2				Year 3			
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Construction 1-4s	230												
Construction 5+	235												
NonResidential	240												
Permanent 1-4 unit Residential loans.	250 253												
Permanent 5+,	256												
Permanent Nonresidential	260												
Land Loans	265												
Total Mortgage Loans	23												
Commercial Loans (non-real estate)	32												
Consumer Loans	34												