Estimated Start-Up and Operating Costs in Chartering a Credit Union

A Value-Added Resource Strengthening Existing and Proposed Credit Unions' Ability to Thrive.

Office of Small Credit Union Initiatives

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Introduction

QUICK HISTORY OF CREDIT UNION CHARTERING

Credit union chartering dates back to the early part of the twentieth century, when the first credit unions received their charters under state laws. With the passage of the Federal Credit Union Act in 1934, organizers established thousands of credit unions as a result of new service options the Act introduced. Prior to 1934, there were approximately 2,000 or so credit unions, most of which offered limited services and were state-chartered. However, by the 1950's charters were growing by leaps and bounds, as the dual chartering system began to flourish. At one point in time in the 1970's there were close to 12,000 credit unions in the United States, chartered under either federal or state law.

CONSIDERATIONS IN DECIDING WHETHER OR NOT TO CHARTER A CREDIT UNION

There are several key factors to consider in deciding whether or not to organize a credit union:

- Is the financial institution needed?
- Can it be successful over the long term?
- Is there a dedicated and competent management team in place to run the credit union?
- Do you have the necessary capital and funding (subsidies) to cover both the pre and post chartering costs?

This whitepaper will provide you with the information about typical chartering start-up (pre-chartering) costs as well as post-chartering costs, which can help groups seeking to charter a new credit union determine if they have the necessary capital to cover the various chartering expenses, and ultimately whether the project can be successful – not just in the beginning, but over the long term.

EXECUTIVE SUMMARY

The NCUA's Office of Small Credit Union Initiatives developed this updated white paper to provide the most current information to individuals and groups interested in forming a credit union. While there are other requirements for chartering a credit union as outlined in Chapter 1 of the Chartering and Field of Membership Manual, this document is intended to provide relevant and useful guidance into the thinking process by outlining the most significant aspects of the chartering process that must be considered, as well as the costs related to those items. The information was gathered from recent charter applications approved, credit union trade organizations, a state supervisory authority, newly chartered credit unions' financial statements, a number of charter application proposals, and several computer vendors' websites.

A breakdown of estimated pre and post-chartering costs is provided in two different scenarios: (1) Basic Service Credit Union and (2) Full Service Credit Union. The costs provided are examples of estimated start-up (or pre-chartering costs) and annual operating costs (or expenses) that can result for a basic service credit union and a full service credit union as of December 2008. Although costs may vary over time, the methodology will only change slightly. Additionally, the actual costs in chartering a federal credit union will vary depending on the proposed computer system utilized, the individual consultants hired, and the unique circumstances in which the credit union will operate. Therefore, this document is not intended to replace a charter applicant's own analysis.

Establishing a new credit union requires much preparation and a time commitment. In addition, new credit unions are often not financially able to offer many of the products and services the membership needs due to difficulties and challenges in obtaining funding to cover such costs. It is important to note that many organizing groups are under the misconception that NCUA will not charter a new federal credit union that wishes to offer more than just the basic financial services (savings accounts and consumer loans). This is not true. NCUA has, and will continue to charter new federal credit unions that wish to offer additional financial services at commencement of operations; however, management must clearly demonstrate in the charter application/business plan submitted for review that the proposed credit union has the infrastructure and the necessary management in place with the expertise to properly implement and administer the financial services requested, including all of the relative back office functions.

It takes much hard work and dedication on the part of credit union organizers to move through and complete the chartering process from beginning to end. One of the most important things a potential new charter must demonstrate is the economic feasibility or viability of the project. Budgeting throughout the chartering process, competent and dedicated management, and the level of start-up capital and subsidies are most critical to the long-term success of a potential new charter. These aspects are the foundation for the economic feasibility or viability of the new charter project. The chartering project is definitely a challenge but nonetheless can be accomplished within a reasonable period of time. Equally important, the NCUA strongly supports the growth and development of credit unions, and extends this support by providing technical assistance and guidance to potential new charter groups through the National Small Credit Union Program.

Getting Started – What You Need to Have in Place

Since the success of any credit union depends on: (a) the character and fitness of management; (b) the depth of the members' support; (c) the level of capital and start-up funding (subsidies) obtained; and (c) present and projected market conditions, your organizing team should coordinate and follow up on the following tasks:

- Establish a valid common bond for chartering a federal credit union (NCUA will provide preliminary approval);
- Survey prospective members (after preliminary approval is granted) and perform an analysis of need for financial services;
- Identify qualified proposed officials and staff;
- Identify needs and sources of training for officials and staff;
- Identify needs for office space and equipment;
- Formulate the business plan, including financial projections and assumptions;
- Conduct regular meetings of organizing committee;
- Contact potential sources of support/mentoring (financial or technical);
- Obtain written commitments for financial support and/or mentoring

Accordingly, organizing groups should have the following items in place before moving forward with their chartering project:

- A dedicated management team;
- Enough 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; and
- Plans for proper administration of all financial services to ensure accurate and up to date record keeping functions, including the need for any back office support from third party service providers. If back office support will be needed, what are the estimated costs for such services, where will the services be coming from, and how will the costs be covered?

BASIC SERVICE CREDIT UNION

The majority of charters issued by NCUA are for credit unions that offer basic services since the officials have no prior credit union experience or knowledge. As a result of this limited knowledge, the officials concentrate initially on learning how to operate and manage an efficient credit union, and obtain training on how to perform their duties and responsibilities. Then, as time goes on, the credit union develops the required knowledge and expertise necessary to offer additional financial services to eventually become a full service financial institution.

A basic service credit union generally offers basic products, such as regular share accounts and small consumer loans. Regular share accounts include savings, vacation clubs, holiday clubs, etc. The small consumer loans include personal (signature), new and used automobile, home improvement, educational, and debt consolidation type loans. These loans are granted for small amounts because a newly chartered credit union has a limited source of funding, which comes in the form of share deposits received from its members. In addition, there are regulatory requirements with respect to the maximum loan amount that a credit union may grant to a member (Refer to NCUA Rules and Regulations, Section 701.21, Loans and Lines of Credit to Members, (c), General Rules, (5) Ten percent limit).

Due to the basic products and services offered, the pre-chartering costs will include basic items needed to establish the credit union’s operations. The pre-chartering costs could involve consultant (or application organizer) fees, office rental space, a basic computer (record keeping) system, basic furniture & equipment, and an initial market analysis and survey of potential members. These items are estimated to cost $49,905, as indicated under Scenario A on the Estimated Pre-Chartering Costs spreadsheet.

Meanwhile, the annual expense of operating a basic service credit union is estimated at $76,781, as illustrated under Scenario A on the Estimated Post Chartering Annual Costs spreadsheet. Detailed information relating to these expenses is discussed later on in this whitepaper under the section entitled, Explanation of Estimated Post Charting Costs (or Annual Operating Expenses).

FULL SERVICE CREDIT UNION

A full service credit union would offer the basic services including regular share accounts and regular consumer loans, as well as a cash operation, check cashing, share drafts, ATMs, debit and credit cards, mortgage loans, credit counseling, and an audio response system among other financial services.

As indicated above, NCUA sometimes issues a charter for a full service credit union as long as the organizers can clearly demonstrate the amount of management expertise, staffing, fixed assets, and funds required to properly administer and cover the costs associated with these services, including all of the required back office functions associated with the services requested. Such credit unions require a manager with financial services experience, additional office space, additional staff, and a more complex computer system (e.g., hardware and software) to support the special programs, including share drafts, ATMs, debit and credit cards and cash operations. Most full service credit unions administer these programs under different departments, requiring considerable staff and separate department managers. As an alternative, credit unions may utilize the service of outside third parties or credit union service organizations (CUSOs) to perform back office functions and support for particular services or its entire record keeping operation. However, credit unions are responsible for performing their own due diligence in selecting any third party service providers.

In order for NCUA to charter a full service credit union, a more complex and detailed business plan is needed, including sufficient policies, operating procedures, staffing, and internal controls for each special product or service to be offered.

Depending upon the special services and products offered, the pre-chartering costs of a full service credit union would include a more complex computer with special software for each product offered, larger office space, sufficient staff, sufficient furniture and equipment, some leasehold improvements, and a market analysis and survey of potential members. These items are estimated at $148,960, as indicated under Scenario B on the attached Estimated Pre-Chartering Costs spreadsheet.

Meanwhile, the estimated annual cost of operating a full service credit union is $333,392, as illustrated under Scenario B on the attached Estimated Post Chartering Annual Costs spreadsheet. Detailed information relating to these costs is later on in this whitepaper. Due to a newly chartered credit union's limited income producing capacity to cover these expenses, they generally do not offer these special services.

SUMMARY

The Office of Small Credit Union Initiatives developed this updated white paper to determine the estimated pre-chartering costs and post chartering costs (or annual operating expenses) involved with chartering a basic service credit union (Scenario A) and a full service credit union (Scenario B). The pre-chartering costs and estimated annual operating expenses are considerably less for a basic service credit union as illustrated on the enclosed Estimated Pre-Chartering Costs and Estimated Post Chartering Costs spreadsheets.

Both Scenario A and Scenario B are estimated costs. The actual results will vary depending on the services offered, vendors used, geographic area, and unique circumstances in which the credit union operates. Given the significant costs involved, most groups seek grant money and non-member deposits (if pre-approved for the low-income designation) to help subsidize the pre-chartering costs and annual operating expenses. For the same reason, most groups seek charters for a basic service credit union and then add additional services when the credit union's asset size and income producing capacity increases to cover the administrative cost of offering those services or products.

Estimated Pre-Chartering (Start-Up) Costs

	Scenario A	Scenario B
Pre-Chartering Consultant/Organizer Fees	35,000	60,000
Electronic Data Processing		
Computer Hardware	2,800	7,500
Second Modem for Drafts, ATMs & ACHs	0	250
General Ledger/Share and Loan Accounting Software	4,000	8,045
Computer Installation & Training	1,485	1,485
Check Writing Software (Laser)	500	500
Report Writing Software	0	350
Bank Reconciliation Software	0	220
Loan Delinquency Notice Printing Software	220	220
Statement Printing Software	275	275
Budgeting Software	0	330
Direct Deposit - ACH Software	0	1,670
Microfiche Service/Basic Setup	0	250
Enhanced General Ledger Software (Fixed Assets, Prepaid/Deferred Expenses, Accrued Expenses)	0	795
Share Draft Software	0	2,230
ATM Network Software	0	3,980
ATM Option – Positive Balance File	0	1,110
Loan Form Printing (laser or D-matrix) pre-printed forms	0	1,000
Cash Drawer Software	0	795
Insurance Calculator, Level Rate	0	330
Credit Bureau Software	295	295
Credit Bureau Reporting Software	330	330
Asset/Liability Management Software	0	3,500
Voice (Audio) Response System (hardware & software)	0	9,500
Total Estimated EDP Computer Costs	9,905	44,960
Furniture & Equipment - Desks, Chairs, File Cabinets, Security	4,000	18,000
Leasehold Improvements - Teller Station, Cash Vault		24,000
Marketing/Surveying	1,000	2,000
Total Estimated Pre-Chartering Costs	49,905	148,960

Note: These are examples of estimated pre-chartering (or start-up costs) for a basic service credit union (Scenario A) and a full service credit union (Scenario B). The actual results or costs will vary depending on the proposed computer vendor, the proposed consultant and the unique circumstances in which the credit union operates. It is also not intended to replace a charter applicant's own analysis.

Estimated Post Chartering Costs

	Scenario A	Scenario B
Office Staff Compensation		
Manager/CEO	28,000	45,000
Teller	0	22,000
Member Service Representative	0	25,000
Accounting/Operations Specialist	0	35,000
Total Office Staff Compensation	28,000	127,000
Office Space		
Rent	15,000	24,000
Utilities	3,600	5,400
Leasehold Improvements Amortization (10 yrs.)		2,400
Electronic Data Processing Costs		
Depreciation of EDP System (5 yrs.)	1,981	8,992
Annual Hardware/Software Maintenance Agreements	1,200	5,200
Furniture and Equipment Depreciation (10 yrs.)	400	1,800
Shared Branch/Service Center (Cash Operation Alternative)		12,000
ATM Network Expenses		50,000
Marketing Expenses	1,000	5,000
Officials/Staff Training Expenses	1,000	4,500
Disaster Recovery Program / Business Resumption Contingency Plans	1,500	5,500
Other Operating Expenses	23,100	81,600
Total Estimated Annual Operating Expenses	76,781	333,392

Note: These are examples of estimated annual operating (post chartering) expenses for a basic service credit union (Scenario A) and a full service credit union (Scenario B). The actual results or costs will vary depending on the proposed computer vendor and the unique circumstances in which the credit union operates. It is also not intended to replace a charter applicant's own analysis.

Explanation of Estimated Pre-Chartering Costs

There are several functions involved in obtaining a credit union charter. These functions result in expenses during the chartering process, as well as the day the credit union charter is received. These expenses are referred to as pre-chartering costs. At a minimum, these costs will include organizer/consultant fees, marketing/surveying costs, electronic data processing costs, furniture and equipment, and leasehold improvements, as discussed below.

PRE-CHARTERING ORGANIZER/CONSULTANT

The organizer provides direction, guidance, and advice on the chartering process, and has primary responsibility for determining the interest, commitment, and economic advisability of forming a federal credit union. The organizer also provides the group with information about a credit union's functions and purpose as well as technical assistance in preparing and submitting the charter application. This technical assistance would include, at a minimum, development of the business plan, completion of all required chartering forms, developing financial projections and guidance in soliciting subsidies and funding from outside sources.

While anyone may organize a credit union, a person with training and experience in chartering credit unions is generally the most effective organizer. Credit union trade associations will usually assist a group in contacting an organizer. Other effective organizers are church pastors, school officials, civic and association leaders, and retired credit union officials and managers.

It is desirable for the organizer to have skills in accounting, policy development, lending and collections, credit counseling, marketing, organization and leadership, and communications, since close communication and cooperation between the organizer and the proposed members are critical to the chartering process.

While the business plan may be prepared with outside assistance, the proposed officials must have a thorough understanding and the ability to implement the submitted business plan. Additional steps may be necessary if the proposed credit union seeks a low-income designation or is seeking a community charter.

While federal credit unions are generally organized by persons who volunteer their time and resources, a group may choose to hire an organizer/consultant. This person must have knowledge about the potential membership the proposed credit union plans to serve.

Pre-chartering consultant/organizer fees will vary significantly depending on the nature and extent of volunteer involvement, the nature of the proposed field of membership, the number of potential members, complexity of proposed services, and extent of mentoring and other support. In general, organizer/consultant fees are a function of the time spent gathering and organizing data, complexity of proposed credit union operations, and skills required.

A group can expect to pay $50 to $120 per hour in consulting fees for a professional credit union organizer. Depending on the hours used and the length of time the consultant is engaged, consultant fees might be expected to run about $35,000 for a plain vanilla credit union in Scenario A, and $60,000 or more for a complex credit union as in Scenario B.

Meanwhile a credit union can defray some of its pre-chartering consultant/organizer fees by obtaining assistance from credit union trade organizations (e.g., state credit union association or the National Federation of Community Development Credit Unions), and/or a mentor credit union.

MENTOR

In addition to assistance from various credit union trade organizations, all newly chartered credit unions are strongly encouraged to establish a mentoring relationship with an existing, well-operated credit union. The mentor credit union should provide guidance and assistance to the new credit union through attendance at meetings, onsite one-on-one training, and general oversight review. NCUA Economic Development Specialists can provide assistance in finding a qualified mentor credit union.

It is strongly recommended that the type, frequency, and duration of the technical assistance to be provided by the mentor credit union be spelled out in writing, along with the new credit union's responsibilities for initiating contacts and following up.

While mentoring assistance may be obtained at little or no cost to a start-up credit union, a new credit union is expected to have goals to operate independently. Since mentoring assistance is generally provided on a volunteer basis, no expenses have been projected. However, the proposed credit union may need to adjust projected expenses in other areas, such as training and marketing, if it is unable to obtain pro-bono mentoring assistance in these areas.

MARKETING

A group seeking to charter a credit union must perform a market analysis, or survey to determine whether there is a sufficient demand for the services the proposed credit union intends to offer. Its primary function is to ascertain whether the potential members will join the credit union, regularly deposit funds, and use its services. The market survey should also gather information about the financial service providers currently used by the potential members, the products and services desired, and the office hours and locations that would be most convenient for the prospective members. Additionally, the market analysis or survey should contain an assessment of the competition's rates, services, fees, and customer base.

Civic, church, and school leaders should be interviewed for information on the nature and financial needs of the potential membership. The organizer of the proposed credit union should also visit occupational and associational groups within the potential membership to seek their input. The results of these contacts will determine the marketing strategy to promote participation in the new credit union. Pre-chartering market analysis may cost $1,000 or more for a small, basic-service credit union, and $2,000 or more to adequately survey the prospective members of a proposed full-service credit union.

ELECTRONIC DATA PROCESSING

All credit unions must have an adequate accounting system to maintain their records current and in balance, including members' share and loan accounts, as well as the credit union's financial records. To more efficiently serve the credit union's members financial needs, NCUA strongly encourages that a newly chartered credit union's operations begin with a computerized accounting system. A computerized accounting system generally consists of hardware (e.g., computer, keyboard, printer, monitor, and modem) and operating software (e.g., Windows, recordkeeping programs, and other utility applications). Both the hardware and software requirements will depend upon the specific products and services offered by the credit union.

Many computer vendors specialize in selling credit union recordkeeping or accounting systems; however, the cost of the same type of accounting system will vary significantly from vendor to vendor. Therefore, the organizer and proposed officials are encouraged to shop around for the best possible deal. In addition, a newly chartered credit union should only purchase the type of hardware system and software options to support services it plans to offer during at least the first three years of operation.

In Scenario A, the basic service credit union's initial electronic data processing costs are estimated to total $9,905. This amount includes computer hardware at $2,800 installation, set-up, and training costs at $1,485, and basic general ledger and member share and loan accounting software at $4,000.

Additionally, the electronic data processing costs include some optional “add-on” software as follows:

Software	Cost	Purpose
Check Writer (Laser)	$500	Automatically prints checks on an as needed or batch basis.
Delinquent Loan Notices	$220	Produces delinquent loan notices based on information on missed payments from the delinquency report.
Statement Printing	$275	Prints member account statements.
Bank Reconciliation	$220	Assists in completion of the monthly reconcilement of your primary checking account
Budgeting	$330	Facilitates the set-up of your annual operating budget and monthly variance analysis
Credit Bureau Service and Credit Bureau Reporting	$625	Allows credit union to obtain credit bureau inquiries on an integrated, real time basis, along with reporting borrowers to the credit bureaus (additional per transaction fee and monthly minimum may apply)
Loan Insurance Calculator – Level Rate	$330	Automatically calculates disability and credit life insurance premiums on loans
Report Writer	$350	Generates useful monthly reports to provide to management and the board of directors to analyze operating performance

In Scenario B, the full-service credit union’s initial electronic data processing costs are projected to total $44,960. Due to the additional products and services offered, the credit union needs a more complex accounting system, including additional hardware. Therefore, the computer hardware is estimated to cost $7,500 plus an additional modem at $250 to process transactions involving share drafts, ATMs, and ACHs. The basic accounting software for shares, loans, and general ledger accounts is estimated at $8,045 as well as the installation, set-up, and training costs at $1,485.

However, in addition to the basic accounting software noted above under Scenario A, a full-service credit union will need supplementary software to support the other products and services offered, including:

Software	Estimated Cost
Share Draft	$2,230
ATM Network	$3,980
Cash Drawer	$795
Direct Deposit/ACH Transactions	$1,670
Voice Audio Response System	$9,500

Furthermore, there are other “add on” software applications to assist credit union officials in monitoring and controlling the credit union’s operations. Due to the complexity of a full service credit union’s operations, we added several popular optional software applications under Scenario B, including check writing at $500, budgeting at $330, report writing at $330, bank reconciliation at $220, delinquent loan notices at $220, statement printing at $275, microfiche (records storage) at $250, ATM positive balance file at $1,110, and an asset-liability management module at $3,500.

FURNITURE & EQUIPMENT

A credit union must have furniture and equipment to furnish its office facility and carry out its daily operations. Its furniture and equipment generally consists of desks, chairs, file cabinets, a security system, calculators, typewriters, a check writer, a communication system, copiers, automated teller machines, etc. Actual items will depend on the type of services offered by the credit union. In some cases, some or all of these items may be donated to the proposed new credit union.

In Scenario A, the basic service credit union’s furniture and equipment may cost $4,000 for the bare essentials, including desks, chairs, file cabinets, a small copier, telephones, and calculators. The annual expense for depreciating these items would be $400, based on an estimated useful life of ten years for all furniture and equipment. In Scenario B, the full service credit union would need additional furniture and equipment to sufficiently offer the specialized products and services, which may cost $18,000 for several file cabinets, desks and chairs, a larger copier, a more complex communication system with multiple telephone lines, a security system, and a check writer. The annual expense for depreciating these items would be $1,800, based on an estimated useful life of ten years for all furniture and equipment.

LEASEHOLD IMPROVEMENTS

Leasehold improvements are improvements made to the property occupied by the credit union under a lease or rental agreement. They are paid by the credit union, but revert to the lessor upon termination of the lease. Leasehold improvements will arise when additions, improvements, or alterations are made to the leased property to make it more usable by the credit union.

Leasehold improvements should be amortized over the period of the lease, giving recognition to any renewal options, or the estimated life of the improvement, whichever period is shorter. If the premises occupied are without a formal lease, the amortization should be made over the estimated life of the improvements.

In Scenario A, the basic service credit union had no leasehold improvements since it made no changes or alternations to the premises used as its office.

In Scenario B, the full service credit union has leasehold improvements, estimated at $24,000, for renovations to the premises to install teller stations, signs, a cash vault, etc. A cash vault is generally needed to safely store large amounts of cash on hand, used to fund the cash operation. In this case the credit union has a ten-year lease, while the improvements have an estimated life of 20 years. The annual expense for the amortization of these leasehold improvements would be $2,400 per year (or $200 per month) based on the period of the lease, which is the shortest period (e.g. ten years).

Explanation of Estimated Post Chartering Costs (or Annual Expenses)

Once a credit union is chartered, it will sustain costs in maintaining the credit union's day-to-day operations. These costs are called operating expenses. This section details those expenses, and provides an explanation of each expense. It also provides detail on the estimated operating expenses reflected for the basic service credit union and the full service credit union.

COMPENSATION

Compensation expense will reflect the extent of volunteer staff, the number of members to be serviced, the type of membership (transaction volume), complexity of products and services, and skills required. For example, share drafts and cash operations require detailed policies and procedures, balancing and reconciling, and a more elaborate system of internal controls. If a share draft program is desired, a full-time staff person will be needed to ensure accurate record keeping and proper administration of the service.

In particular, the manager must have strong skills in accounting, policy development, lending and collections, credit counseling, marketing, and communications. It is essential for the manager of a more complex credit union (Scenario B) to have credit union-related background, supervisory experience, and the ability to train and oversee staff performing a variety of functions. Therefore, compensation expense will be significantly higher in Scenario B in order to attract a candidate with the proper qualifications.

A credit union can expect to pay a minimum of $28,000 in compensation for the manager of a small, basic credit union (Scenario A) and a minimum of $45,000 for an experienced manager in Scenario B. Compensation projections should be adjusted upward for high-cost geographic areas, prevailing labor market conditions, performance incentives, and benefits.

One full-time employee can usually handle most daily office operations for a small, basic service credit union offering only regular share accounts and small consumer loans. Thus, compensation expense will only consist of the manager's salary.

Since the full service credit union in Scenario B will offer products and services beyond regular share accounts and small consumer loans (e.g., check cashing, share drafts, etc.), it will require additional staff (estimated at $127,000), which should at least include:

- A manager to supervise staff and efficiently manage the entire operations at about $45,000 or more per year;
- An accounting or operations specialist to handle the record keeping, balancing, reconciling, and other back office operations at about $35,000 per year;

- A member service representative to open new accounts, disburse loans, accept loan applications, cross-sell products, and respond to inquiries at about $25,000 per year; and,
- A teller to process share withdrawals, deposits, payments, and other cash transactions at about $22,000 per year.

OFFICE SPACE

A credit union needs space to operate and perform business transactions with its members. The amount of space needed will depend on the types of products and services offered. The more services offered, the more space is needed to effectively carry out those functions as discussed below under rent. If possible, the group seeking to charter a credit union should search for free office space from its sponsor (e.g., the company, group, or association that is chartering the credit union). If not, the group must search for office space from which it can conveniently serve its members. The costs involved with office space fall into two categories: rent and utilities.

RENT

This is the cost of renting space to support the credit union's office operations. Actual rental cost will depend on the total square footage of the area and the geographic area in which the space is rented. It is typically based on a specific cost per square footage; therefore, the larger the space, the higher the cost. The cost per square foot will differ from state to state, as well as the area within the state (e.g., city vs. rural).

In Scenario A, the basic service credit union's rent of $15,000 is based on a monthly rental expense of $1,250 for 100 square feet at $12.50 per square foot.

In Scenario B, the full service credit union's rent of $30,000 is based on a monthly rental expense of $2,500 per month for 200 square feet at $12.50 per square foot. If the credit union offers services other than basic shares and loans, additional space would be needed (e.g., teller stations for a cash operation). Due to the high cost of rent, most newly chartered credit unions seek financial assistance from their sponsors. This assistance is generally in the form of free office space within the sponsor's premises (for a period of one to two years or even longer) or funds to help pay the monthly rent expense off premises.

UTILITIES

There are generally utility costs related to the space occupied by the credit union, which may include heat, light, water, etc.

In Scenario A, the basic service credit union's annual utilities expense is estimated at $3,600 (or $300 per month).

In Scenario B, the full service credit union's annual utilities expense is estimated at $5,400 (or $450 per month).

LEASEHOLD IMPROVEMENTS

These are improvements made to lease property in order to properly prepare it for the credit union's operation. Leasehold improvements must be amortized over the period of the lease, or the estimated life of the improvement, whichever period is shorter. If there is no formal lease, the amortization should be made over the estimated life of the improvements (which is normally 10 years).

In Scenario A, the basic service credit union had no leasehold improvements since it made no changes, improvements, or alternations to the premises used as its office.

In Scenario B, the full service credit union has leasehold improvements, estimated at $24,000 for renovations to install a teller station, credit union sign, and a cash vault. The credit union has a ten-year lease, while the improvements have an estimated life of 20 years. The annual expense for the amortization of these leasehold improvements would be $2,400 per year (or $200 per month) based on the ten-year lease, which has the shortest period.

FURNITURE AND EQUIPMENT

The cost of a credit union's furniture and equipment is usually depreciated over the estimated useful life of the particular asset. As a result, the total cost of the furniture and equipment is expensed over the expected life of the asset, as opposed to totally expensing it at the time of purchase. This is called straight-line depreciation, which is the simplest asset depreciation method.

In Scenario A, the basic service credit union's furniture and equipment (e.g., desks, chairs, file cabinets, a small copier, telephones, and calculators) costing $4,000 is assumed to have an estimated useful life of ten years. Therefore, the annual expense for depreciating these items would be $400.

In Scenario B, the full service credit union's furniture and equipment (e.g., several file cabinets, desks and chairs, a larger copier, a more complex communication system with multiple telephone lines, a security system, a check writer, etc.) costing $18,000 is assumed to have an estimated useful life of ten years. Therefore, its annual expense for depreciating these items would be $1,800.

ELECTRONIC DATA PROCESSING EXPENSES

The credit union's accounting system (both computer hardware and software) is an asset of the credit union. Therefore, its expense will be depreciated over the estimated life of the computer hardware and software, generally five years. This is called the straight-line depreciation method.

In addition, most computer vendors offer an annual maintenance contract on the accounting system for any unexpected repairs and other needed service.

In Scenario A, the basic service credit union's annual electronic data processing expenses are estimated at $3,181. This amount includes $1,981 for depreciation (over five year) and $1,200 for the computer maintenance contract.

In Scenario B, the full service credit union's annual electronic data processing expenses are estimated at $14,192. This amount includes $8,992 for depreciation (over five years) and $5,200 for the computer maintenance contracts.

MARKETING

All newly chartered credit unions are required to develop and implement a marketing plan showing how they will reach out and serve their potential members. The main objective of the marketing plan is to inform the potential or eligible members about the new credit union, its services, and their ability to join the credit union.

Marketing for a basic credit union (Scenario A) may be limited to producing a quarterly newsletter or inserting articles in the sponsor's newsletter, posting information on the sponsor's bulletin boards, and providing literature, such as a general membership brochure, to be distributed through the sponsor.

Marketing may also be conducted in partnership with a mentor credit union or a credit union organization, which may subsidize the cost or provide discounted rates. Therefore, marketing costs for a basic credit union (Scenario A) is projected at $1,000 per year.

Marketing for a full service credit union (Scenario B) would be significantly more costly if there is a direct mail campaign to boost membership, professionally produced posters and literature, and targeted mailings to market specific products thereafter. A full-service credit union (Scenario B) can expect to spend $5,000 per year for marketing expertise, postage and printing, and perhaps several thousand more if the credit union advertises in mass media. Please note, similar marketing strategies are needed to sufficiently promote a community common bond credit union, even though it may offer only basic products and services, because of its widely diverse field of membership.

TRAINING

The officials of a new credit union do not usually have any credit union experience. Therefore, participation in training programs is an important element contributing to the success of the credit union. Training should consist of:

(1) general training on credit union concepts for all officials, covering the duties and responsibilities of the board of directors, credit committee, and supervisory committee; and,

(2) specialized training for staff and individuals involved in accounting, lending, auditing, and member service operations.

Since funds to pay for training are often quite limited, a newly chartered credit union should apply for whatever scholarships and grants may be available to attend training conferences and seminars. In addition, the officials and staff should seek hands-on training from mentor credit unions, NCUA, and trade association representatives. If a new credit union is granted low-income designation from the NCUA, it is eligible to participate in NCUA's Community Development Revolving Loan Fund Program, where it can apply for low cost loans and technical assistance grants (where the funds can be used to cover costs to register for training classes).

Not only must officials and staff be trained in various credit union functions, they must be cross-trained. As new staff and services are added and officials are replaced, additional training will be required. The credit union must distribute the responsibilities and upgrade individuals' skills constantly so that its operation is not compromised in any way (and thus member services can continue as normal) by the departure of the organizer or other key person.

Assuming the new credit union in Scenario A is able to obtain training subsidies such as scholarships and one-on-one training from a mentor credit union, it should budget at least $1,000 for a couple of seminars, training materials, and travel to attend seminars. At a minimum, the new credit union in Scenario B can expect to spend $1,125 per person to train four people, for a total of $4,500.

SHARED BRANCH/SERVICE CENTER

Cash and transaction operations are very costly for a newly chartered credit union. They involve maintaining a large amount of cash on hand to sufficiently fund the teller cash draws to process share withdrawals and loan disbursements, such as $40,000 to $80,000. At a minimum, the credit union must have a teller, increased bond coverage, a camera/surveillance security system, and plenty of cash. The actual cost of such operations will depend on the number of member transactions. However, as an alternative to maintaining a cash operation, a credit union can participate in a shared branch arrangement with another credit union or a service center network, which would run about $12,000 per year (Scenario B).

ATM NETWORK

The costs involved with purchasing and installing an ATM (or Automated Teller Machine) is generally prohibitive for a newly chartered credit union. A used ATM or basic cash-dispensing machine would cost approximately $30,000 or more (depending on the company that manufactures the machine). Meanwhile, sufficient cash must be maintained on hand to stock the machine. Also, since the record keeping of ATM transactions are very complex, the credit union will need an individual with strong accounting skills to maintain the system and accurately post member transactions.

As an alternative to purchasing and installing an ATM, a credit union can join an ATM network, such as NYCE, MAC, Cirrus, Interlink, Honor, or Plus. The network permits an ATM cardholder to perform credit union business transactions, including share withdrawals, deposits, transfers, payments, and account inquiries, from any ATM displaying the network's logo. ATM network fees can cost $7,500 or more per year.

Whether purchasing an ATM or joining an ATM network, the credit union must also consider the cost of issuing the plastic ATM or debit cards estimated at $3.50 per card, and the interchange fees estimated at $1.75 per transaction. Therefore, Scenario B shows an estimate of $50,000 per year for these ATM expenses, along with the ATM network fees. Please note the actual costs will depend upon the volume of ATM transactions and the service provider utilized.

DISASTER RECOVERY PROGRAM / BUSINESS RESUMPTION CONTINGENCY PLAN EXPENSES

How well will your credit union be prepared for potential disruptions to operations and how will you resume operations promptly in differing situations? Events in recent years have illustrated the need for strong business continuity planning. Unfortunately, they have also provided us with a great deal of experience to learn from. The most important aspects of your disaster recovery program and business resumption contingency plans are to be as well prepared as possible for any type of disaster, and to be able to resume operations quickly to continue to provide service to your members.

A disaster is any situation or occurrence creating a disruption to operations. Equally important, a disaster is understood to involve any event that threatens the credit union's ability to perform its central functions, namely processing member deposits and meeting demand for withdrawals. Your principal objectives with respect to disaster recovery contingency planning are to:

- Minimize disruption of service to your credit union and its members
- Ensure timely resumption of operations when a disaster disrupts or destroys operations and/or your facility
- Limit losses to earnings and capital

Contingency planning is the process of assessing risk exposures for varying situations and establishing plans to restore operations. Contingency planning includes the following phases:

1. Establish *Organizational Planning Guidelines*;
2. Complete a *Business Impact Analysis*;
3. Develop detailed *Contingency Plans*;
4. Design a *Validation* method; and

5. *Communicate* the plans.

To be prepared to handle different types of disasters and position itself to be able to resume operations as swiftly as possible, a newly chartered credit union will need to incur expenses for its disaster recovery program. It is critical for the long term success of your credit union to plan and budget for these expenses. In Scenario A, the basic credit union is projected to incur approximately $1,500 in disaster recovery/business resumption contingency plan expenses. In Scenario B, the full service credit union is projected to incur about $5,500 in disaster recovery/business resumption contingency plan expenses. These expenses may include, but are not limited to, use of an alternate facility to resume operations and/or use of disaster recovery services that you may obtain from your data processing vendor.

OTHER OPERATING EXPENSES

A newly chartered credit union will incur many other expenses while maintaining the credit union's daily operations. These items will include, but are not limited to, expenses for mandatory surety bond coverage, members' insurance (loan protection and credit life), operating fees, stationery and office supplies, postage, credit union trade association dues, outside and professional services (e.g., legal and audit fees), annual maintenance of computer equipment, annual meeting costs, loan servicing expenses, truth in lending, bank service charges, rental of office equipment, provision for loan and lease losses, cash over and short, and dividends.

In Scenario A, the basic credit union is projected to incur approximately $23,100 in other operating expenses. In Scenario B, the full service credit union is projected to incur about $81,600 in other operating expenses. Please note, however, that dividend expense will depend on the level of share deposits of the credit union and the interest rate paid on shares. In addition, the provision for loan and lease losses expense will depend on an estimate based on the historical loss data of the credit union, the amount of probable losses in the loan portfolio and the level of outstanding loans. Therefore, actual costs for other operating expenses may be more or less than estimated in this whitepaper.

In summary, total annual operating costs (post chartering costs) for a basic credit union (Scenario A) are estimated at $76,781, while the annual operating costs for a full service credit union (Scenario B) are estimated at $333,392.

Conclusion

As you can see, this updated white paper provides important guidance to groups seeking to form a credit union. It contains estimated costs groups needs to consider when seeking a charter. Again, the actual costs incurred may vary depending on the products and services offered, the consultant and vendors selected, and geographic area the proposed credit union is located in.

This document is intended to guide the interested group in their thinking process so the individuals can consider all the different aspects involved in the chartering project. At the same time, it does not replace the group's own independent analysis, as every situation presents unique circumstances. Equally important, it will still be beneficial for the group to work closely with mentor credit unions, credit union trade organizations (such as credit union leagues, associations, and the National Federation of Community Development Credit Unions), and the NCUA Economic Development Specialists from the Office of Small Credit Union Initiatives for technical support and additional guidance.