

EXPANSION OF FIXED ASSETS FOR A CREDIT UNION

In most instances the Department of Banking and Finance (Department) allows the credit union to invest in equipment to the extent necessary to conduct the daily affairs of the credit union, maintain the books and records thereof, and meet the convenience and needs of the membership. Generally, acquisition of major equipment items, such as computer facilities or major office renovations, should be completed after consultation with Department personnel. Current Department policy encourages warranted expansion, but only after such plans have been thoroughly investigated and justified by credit union management.

Relocation or expansion of facilities provided by, or subsidized by, a sponsor may usually be effected without prior approval of the Department; however, the Department should be notified, by letter, of the credit union's plans to expand or relocate. If the proposed fixed asset expansion would increase the percentage of fixed assets to total equity capital and reserves (excluding the Allowance for Loan Losses account) to 60% or greater, this application package should be completed and submitted to the Department. If the credit union's proposed investment would be less than the 60% threshold noted above and the credit union qualifies for the expedited processing criteria noted below, the credit union may submit a letter form application containing the following information. (**NOTE:** the letter form application would be submitted in lieu of the application package):

1. Description of the fixed asset expansion plans that are contemplated;
2. Indicate the total proposed amount of fixed asset investment and the percentage that this investment represents of total equity capital and reserves (excluding the Allowance for Loan Losses account); and
3. Indicate the dollar amount of depreciation that would be recognized annual and the effective life being used to write off fixed assets.
4. Indicate the extent of involvement by a director or officer, in other than an official capacity (i.e., the individual or close relative has a financial interest in the property, its renovation, construction or acquisition {i.e., real estate agent or broker}).
5. State that the credit union meets the listed criteria for expedited processing (below).

Criteria for Expedited processing of Credit Union Applications:

1. The credit union must be well capitalized as defined in the appropriate capital regulation and guidance of the Department and the National Credit Union Administration (NCUA);
2. The credit union must have received a CAMELS composite rating of "1" or "2" as a result of the most recent examination;
3. The credit union must not be subject to any agreements, orders, or other enforcement or administrative agreements with the Department or the NCUA.

Where significant additions to equipment and personnel are required, credit union management should consult with representatives of the Department prior to committing to the proposal. Relocation of premises to a self supported, free standing facility in most instances presents a new challenge to credit union management. Where sponsor support has previously consisted of providing or subsidizing the credit union's premises, elimination of this financial support can dramatically alter the manner in which the credit union has been operated in the past. The approval procedure has not been developed solely to satisfy regulatory requirements. The primary reason is to assist credit union management in examining all alternatives and selecting the most appropriate course of action under the circumstances.

IT IS RECOMMENDED THAT THE ENTIRE APPLICATION PACKAGE BE REVIEWED PRIOR TO COMPLETING THE REQUESTED INFORMATION.

The Department will evaluate the merits of the expansion application on the following factors:

FINANCIAL AND MANAGERIAL FACTORS

- 1) Condition: General condition satisfactory; no major problems with regard to classified assets, violations, liquidity, internal controls, or adherence to acceptable written operational policies.
- 2) Capital and Earnings: Sufficient to support expansion; initial as well as ongoing costs must be considered.
- 3) Management: Demonstrated ability to supervise a sound credit union operation; depth and continuity.

MARKET FACTORS

- 1) Current Economic Conditions: Economic conditions in the geographical area as well as within the field of membership; demonstrated sufficiency of business volume to justify the proposed expansion.
- 2) Retention of existing customer base: If a facility is to be established primarily to retain a portion of the existing customer base, greater emphasis will be placed upon the initial and ongoing costs involved.

OTHER FACTORS

- 1) Primary Service Area: The physical dispersal of the field of membership should be considered in an attempt to achieve an optimum location accessible to a substantial majority of the field of membership.
- 2) Location: The precise location should be determined with regard to convenience and needs of the membership as well as the competitive factors enumerated below.
- 3) Financial Institutions: Existing financial institutions must be considered because of "one-way" competitive factors. For the most part the applicant credit union will not be in competition for loans and deposits with the customers of other financial institutions except to the extent of the field of membership. Competitive financial institutions, however, are in direct competition for all credit union business. Location of the proposed credit union facilities within an existing "highly competitive" traffic area could create competitive factors that did not previously exist. Credit union customers visiting the credit union office may become more exposed to competitive marketing strategies and, where credit union loyalty is weak or nonexistent, this could prove detrimental to the growth and prosperity of the institution.

APPLICATION PROCEDURES

The following schedules should be completed and submitted under a cover letter as a part of the application:

- 1) A resolution of the Board of Directors of the credit union authorizing management to file the application and stating that the Board has reviewed the application in its entirety and concurs with its contents.

- 2) Summary of proposed additions and deletions to fixed assets.

APPLICATION PROCEDURES (Continued)

- 3) Three-year pro forma balance sheet*.
- 4) Three-year budget of income and expenses*. Emphasis should be placed upon resulting increases in expenses related to the fixed asset expansion. (See instructions below.)

NOTE: In the event that the total investment in fixed assets will exceed five percent of total credit union assets, balance sheet and income budgets (items 3 and 4 above) should be projected through the year in which the investment in fixed assets can reasonably be expected to decline to less than five percent of total assets.

- 5) Management's assessment of the following factors:
 - a) Does a need exist among the membership for the proposed facilities?
 - b) Will the expansion plan proposed by the credit union serve that need?

***Preprinted forms have been developed; however, you may substitute your own forms provided they contain substantially the same information as that requested.**

INSTRUCTIONS FOR COMPLETION OF PRO FORMA (PROJECTED) FINANCIAL STATEMENTS:

A budget is essentially a roadmap and timetable for arriving at a financial location at some point in the future. Just as unforeseen events can alter the planned route of travel or delay the arrival at a destination, unexpected expenses or changes in economic factors can impact the achievement of financial goals.

The budget not only represents a goal or "standard" by which actual performance can be measured, it also can provide an opportunity to detect potential problem areas and allow the implementation of corrective action in a timely manner.

Projections are based on historical trends as well as assumptions. While historical trends reflect a record of events that have transpired, assumptions relate to events which are expected to occur in the future. Assumptions can also be based on historical trends; that is, one can assume that established trends will continue at the same rate and direction into the future.

Developing balance sheet and income statement budgets (projections) is simply a matter of making a prediction of future financial statements based upon information available at the time. By reviewing historical data and trends, making certain assumptions about the future, and applying these factors, the budget developer creates a financial picture of the future. Obviously, not all assumptions will be correct since unforeseen events can and will occur to impact the institution's financial performance.

Information which can be helpful in completing the budget:

Prior Balance Sheet and Income Statements

Credit Union Performance Reports

Prior examination reports

The basis for the budget can be the most recent balance sheet and historical trends. For example, assume that outstanding loans have grown at rates of 4%, 5%, and 9% for the last three years. The average growth rate is 6%, but note that the rate of growth was significantly higher in the last year. The budget developer must make a prediction about the level of loans for the next year. Will it be above, below, or just average? Given the latest trend, the assumption may be made that a growth rate of 8% is to be expected. By multiplying loan balances times 1.08, the balance of the loan account at the end of 12 months is projected. Next, an assumption must be made for interest rates to be charged on those loans. By taking an average of the loan balance (current loan balance + projected loan balance \div 2) and then multiplying it by the predicted rate, a figure for loan income is obtained.

Using this same approach, outstanding balances for investments, deposits and shares can be determined and averaged. Averages are then multiplied by the rates expected for each category to determine the major sources of income and expense. Each of these major categories of income and expense were "balance sheet driven"; that is, computed based upon balance sheet figures that are projected for the next 12 months.

Other sources of income can be projected based upon percentages of total earning assets, total assets, or other ratios generated from recent historical data.

Overhead can be estimated on a line by line basis (salary expense, insurance, office supplies, utilities, depreciation, etc.) based upon recent trends and any expectations that may modify those assumptions (employee raises, additional employees, equipment purchases, etc.).

Loan loss expenses may be developed several different ways: percentage of total loans which may be expected to be written off, loan-by-loan or category-by-category analyses of the present quality of the loan portfolio, or other methods for which assumptions can be documented.

As assumptions are addressed, the balance sheet and income statement will begin to take shape. At this time, the budget developer should compare the budgeted figures with recent historical figures to insure that no significant variances exist. If they do exist, the reasons therefore should be adequately explained.

RESOLUTION OF BOARD OF DIRECTORS

The Board of Directors of _____ Credit Union at a meeting duly called on _____ 20__ adopted the following Resolution:

"Whereas the Board of Directors of the credit union has reviewed the application for approval to acquire real property and expand fixed assets in its entirety and it is the sense of this meeting that the application should be submitted on behalf of this credit union to the Department of Banking and Finance for written consent to () purchase real property () and establish a permanent facility to be operated at:

Street _____

County _____

City/State _____ Zip _____

in accordance with the provisions of State law;

NOW, THEREFORE IT IS RESOLVED, That the President of this credit union is hereby authorized and directed to submit the application to the Department of Banking and Finance for the purpose of inducing the Department to grant written consent to () purchase real property () and establish a permanent facility to be operated at:

Signature of President _____

Attest _____

The above Resolution has not been rescinded or modified and was duly entered in the Minute Book of the credit union on _____.

CREDIT UNION PREMISES AND EQUIPMENT WORKSHEET

	Existing	Deletions (Book Value)	Additions	Result
Land				
Credit Union Building				
Equipment, Furniture, Fixtures				
Leasehold Improvements				
Other				
TOTAL PREMISES				

ANNUAL DEPRECIATION				
Building				
Equipment, Furniture, Fixtures				
Leasehold Improvements				
Other				
TOTAL ANNUAL DEPRECIATION				

- (1) If a building is to be constructed or renovated, provide a copy of the "Contractor's Estimate" of costs to complete construction or renovation of the property.

- (2) Will the credit union finance the purchase or construction of new assets? If so, give details. (Amount, rate, term, repayments terms, collateral, etc.)

- (3) Will there be any changes in the credit union's business plan? If so, give details (new services to be offered, etc). Changes in deposit growth should be discussed below and be incorporated into the pro forma balance sheet and income statements submitted in support of the application.

- (4) Will there be a potential impact upon the credit union's data processing system as the result of fixed asset expansion? Have physical security matters been considered?

- (5) Are there any environmental issues associated with the prospective property? If so, give details to include the results of any professional survey or study of the property; plans to address the issues and estimated costs thereof.
- (6) Are there any historical preservation issues associated with the prospective property? If so, give details to include the results of any professional survey or study of the property; results of discussions, agreements or understandings with local zoning or permitting authorities, commissions, boards or committees (collectively known as "local authorities") asserting authority over demolition, construction or renovation to the property; a list of those specific areas where local authorities assert control (i.e., windows, doors, siding, landscaping, roofing, interior design, utilities, drainage, HVAC, etc).

PROFORMA BALANCE SHEET	3 year Historical	Date Actual	Date	Date	Date	Projected
ASSETS	(A) or (G)	Amount	Amount	Amount	Amount	(A) or (G)
Loans (Net)	G					G
Leases	G					G
Interest Bearing Depository Balances	A					A
Federal Funds Sold & Repos	A					A
NCUA	A					A
Securities	A					A
Total Earnings Assets	A					A
Cash and Demand Balances	A					A
Premises and Equipment	A					A
Other Real Estate	A					A
Acceptances (Cust. Liability)	A					A
Income Earned But not Collected						
Other Assets (list)	A					A
TOTAL ASSETS						
LIABILITIES AND CAPITAL		Amount	Amount	Amount	Amount	
Demand Deposits (Share draft)	G					G
Savings Deposits	G					G
Time Deposits	G					G
TOTAL DEPOSIT LIABILITIES						
Federal Funds Purchased & Repos	A					A
Other Borrowed Money	A					A
TOTAL FUNDING LIABILITIES						
Mortgages & Cap. Lease Obligations	A					A
Acceptances Outstanding	A					A
Expense & Tax Accruals	A					A
Other Liabilities	A					A
TOTAL LIABILITIES						
Shares (Members x \$ _____) Actual	G		xxxxxxxxxx	xxxxxxxxxx	xxxxxxxxxx	
Shares (Members x \$ _____) 1st period		xxxxxxxxxxxxxxxx		xxxxxxxxxxxxxxxx	xxxxxxxxxxxxxxxx	G
Shares (Members x \$ _____) 2nd period		xxxxxxxxxxxxxxxx	xxxxxxxxxx		xxxxxxxxxxxxxxxx	G
Shares (Members x \$ _____) 3rd period		xxxxxxxxxxxxxxxx	xxxxxxxxxx	xxxxxxxxxxxxxxxx		G
Statutory Reserve	G					G
Undivided Profits	G					G
Other Segregations	G					G
TOTAL CAPITAL						
TOTAL LIABILITIES AND CAPITAL						
MEMORANDUM INFORMATION	3 year average					
Total Capital/Total Assets						
Loans/(Deposits + Shares)						
Earning Assets/Total Assets						
Stat Res/Total Loans						
Asset Growth Rate						
Capital Growth Rate						

INCOME & EXPENSE (BUDGET)	3 year Historical Cost/Yield	Period Ending Actual 12-31	Period Ending projected 12-31	Period Ending projected 12-31	Period Ending	Projected Cost/Yield
INTEREST INCOME:						
Interest and fees on loans	Y					Y
Income from lease financing	Y					Y
Int. On balances with depository inst.	Y					Y
Inc. On Federal funds sold and Repos	Y					Y
Interest and dividends on:	Y					Y
U.S. Government securities	Y					Y
Obligations of states & pol. Sub	Y					Y
Other Securities, funds, trusts, etc.	Y					Y
TOTAL INTEREST INCOME	E					E
INTEREST EXPENSES:						
Interest paid on deposits (not shares)	C					C
Exp of Fed funds purchased and repos	C					C
Interest on other borrowed money	C					C
TOTAL INTEREST EXPENSE	E					E
NET INTEREST INCOME	E					E
NON-INTEREST INCOME:						
Service charges on deposit accounts	E					E
Other serv. Charges, commissions, fees	E					E
Other operating income	E					E
TOTAL INTEREST INCOME	E					E
OVERHEAD EXPENSE:						
Salaries & employee benefits	E					E
Net occupancy exp. Of CU premises	E					E
Depreciation on premises	E					E
Equipment exp, include depreciation	E					E
Other operating expenses	E					E
Provision for loan losses (For use only if CU uses a loss reserve OTHER THAN STATUTORY RESERVE)	E					E
TOTAL OVERHEAD EXPENSE	E					E
NET OPERATING INCOME:						
Other increases (specify).....	E					E
Other decreases (specify).....	E					E
Transfers to Statutory Reserve (See below)	E					E
NET INCOME BEFORE DIVIDENDS ON SHARES:						
cash dividends on shares	C					C
Net increase/decrease in Undivided Earnings	E					E

MEMORANDUM COMPUTATIONS:

Gross Income for Period

Minimum Transfer to Statutory Reserve (%)

Dollar Transfer to Statutory Reserve

(A) Three year average percent of assets or Projected percent of assets

(G) Average three year growth rate or Projected growth rate

(Y) 3-year average yield or projected Yield

(C) 3-year average cost or Projected Cost

(E) 3-year average percent of average assets or projected percent of average assets