



DBF GUIDANCE FOR GEORGIA STATE-CHARTERED BANKS, BANK HOLDING COMPANIES, CREDIT UNIONS, AND TRUST COMPANIES

TO: Supervision Staff

CC: Georgia State-Chartered Credit Unions

FROM: Melissa Sneed
Deputy Commissioner for Supervision

SUBJECT: GEOGRAPHIC COMMON BOND FIELD OF MEMBERSHIP

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Geographic common bond is a field of membership type based upon residence or employment in a well-defined geographic area for an individual or business that meets the requirements in O.C.G.A. § 7-1-630(b). This Guidance contains details for the criteria used by the Department in reviewing an application by a credit union to add a geographic common bond to its field of membership. Each credit union application must demonstrate satisfaction of statutory requirements and safety and soundness criteria. The Department reserves the right to revise such Guidance as warranted to maintain standards of practice and parity and to preserve safety and soundness.

Criteria for a Well-Defined Area

A geographic common bond is based on residence or employment in a well-defined neighborhood, community, or rural district, unlike the federal definition, which includes individuals who live, worship, work, or attend school in such an area.

The criteria for a neighborhood, community or rural district must be well-defined, in accordance with O.C.G.A. § 7-1-630(b). The boundaries of a neighborhood, community, or rural district may be defined by streets and roads but may also be bounded by other delineations including boundaries of a municipality (such as the city limits) or other boundaries that reasonably demonstrate the end of one neighborhood or community and the beginning of another.

Safety and Soundness Criteria that Apply to Requests for a Geographic Common Bond

Credit unions are subject to safety and soundness criteria based on financial and managerial capacity of the credit union to serve the proposed common bond, whether an employee, associational, or a geographic common bond. The Department will not approve such applications, particularly for more populous geographic areas, unless these criteria can be clearly demonstrated. The Department reviews proposed changes in a credit union's field of membership in accordance with the requirements for amended credit union bylaws set forth in O.C.G.A. § 7-1-634.

The following criteria shall guide the Department in evaluating financial and managerial capacity to support a request for a geographic common bond:

1. A Composite CAMELS rating of "1" or "2" and a risk rating of "low" or "moderate" in all applicable categories assigned at the most recent examination.
2. Any credit union receiving a CAMELS rating of "3" in any component area and a risk rating of "low" or "moderate" in all categories at the most recent examination shall be considered only after review of the following additional factors:
 - a. The underlying reasons for ratings outside the criteria in item 1 above;
 - b. The overall condition of the credit union and ability to support expanded activities;
 - c. Management's progress and commitment to improve such ratings; and
 - d. Prospects for improving performance and ratings in the near term.
3. A credit union receiving a CAMELS component rating in any category more severe than a "3" or having a risk rating of "high" in any category in the most recent examination will not be approved for a geographic common bond.
4. It is strongly recommended that credit unions with a Composite CAMELS rating of "3", not apply for any geographic common bond until the overall condition of the credit union is restored to a satisfactory level. Absent extreme mitigating circumstances, the Department will not approve a geographic common bond addition for such credit union.
5. At the time of the application, the Department should have confidence that the credit union has an adequate level and depth of management to meet the requirements of the geographic common bond proposed.
6. At the time of the application, the Department should have confidence that the credit union has sufficient information technology resources and capacity to serve the proposed geographic common bond.
7. At the time of the application, the Department should have confidence in management's ability to recognize, monitor, and control the following risks:
 - i. Credit Risk – the risk of default on expected repayments of loans or investments and policies and procedures for collections;

- ii. Interest Rate Risk – the risk that changes in market interest rates will negatively impact the income statement or balance sheet of the credit union;
 - iii. Liquidity Risk – the risk of an inability to fund the repayment of deposits and borrowings or meet lending obligations from available liquid assets;
 - iv. Transaction Risk – the risk of fraud or operational problems in transaction processing that results in an inability to deliver products, remain competitive, and properly manage information and data;
 - v. Compliance Risk – the risk of violations and non-compliance with applicable laws and regulations resulting in fines, penalties, or damages;
 - vi. Strategic Risk – the risk of adverse business decisions through management actions or inactions that impact the competitiveness, and viability of the credit union; and
 - vii. Reputation Risk – the risk of negative public opinion or perception leading to a loss of confidence and/or severance of business relationships.
8. A key component of the safety and soundness requirement for a geographic common bond shall be the submission of a letter form application that addresses the following:
- a. The manner in which the credit union intends to service the targeted neighborhood, community, or rural district;
 - b. The financial services that will be provided to the targeted neighborhood, community, or rural district;
 - c. A projection of the expected size into the target market over a three-year period, to include consideration of the market's current financial service providers;
 - d. The impact of the proposed addition on credit union capital, property, and equipment (including technology resources) and personnel resources; and
 - e. The adequacy and sufficiency of fixed assets and data processing facilities to serve the proposed geographic common bond including sufficient resources to meet the expected growth levels.
9. The Department may require the applicant to submit revised loan and collection policies and procedures that recognize the additional complexities of serving a geographic common bond.
10. The Department may require the applicant to submit adequate policies related to liquidity and asset/liability management that recognize the additional complexities that could result from expanded lending and deposit taking activities.
11. The Department may require an income statement budget and pro forma balance sheet reflecting realistic financial, capital, and operating goals inclusive of growth expectations of the geographic common bond expansion.

The Department shall determine whether a credit union has adequately documented and supported an application for a geographic common bond by reviewing the submitted letter form application; determining whether the credit union has the management and operational resources to support the proposed addition; and confirming that the credit union adequately serves the existing credit union membership.

Multiple Geographic Common Bonds

It is the Department's expectation that the credit union is serving the geographic area that has already been approved by the Department. In applying for an additional geographic common bond, the credit union shall demonstrate that the existing geographic common bonds are adequately served, that the credit union has available management and operational infrastructure to properly serve the proposed group, that the credit union meets all safety and soundness criteria contained within this Guidance, and the credit union is not subject to any other criteria which would make the proposed addition unsound. While it is not mandatory that the credit union have an established branch in close proximity of the group being proposed, the credit union should detail in the application how the proposed group will be served, through physical branches, shared branches, telephone, mail, ATM, or electronic means. In all cases the addition being proposed should be consistent with the objectives contained in O.C.G.A. § 7-1-3.

Mergers of Georgia State-Chartered Credit Unions with Geographic Common Bonds

Mergers between credit unions serving geographic common bond(s) are permissible, subject to safety and soundness and statutory requirements. A credit union must meet the safety and soundness criteria for a merger and would be expected to demonstrate that it could reasonably serve the members of the current credit union and the members of the credit union being merged. So long as the surviving credit union's Board of Directors provides with the application a resolution approving the addition of any fields of membership as a result of the merger, the field of membership for the continuing credit union will be comprised of the combination of groups of the two credit unions.

Merger with or Conversions of Federal Credit Unions

Conversion of a federal credit union to a state credit union will be in compliance with state law. A Georgia state-chartered credit union that is designated as the survivor of a merger with a federal credit union may retain all the federal credit union's community bonds as geographic common bonds after the merger becomes effective. All existing members of the federal credit union may continue as members of the surviving credit union; however, after the merger becomes effective, state law will allow new members only if they "reside or work in" the geographic area. Any common bond, including new employee or association groups, not already approved in either of the surviving or merging Credit Unions will have to be submitted via normal application process.

Status of Underserved Areas Based on Parity with Federal Charters

State law does not currently provide for the specific ability to add groups to the field of membership of a credit union based solely on being an underserved area, as is currently the case with federal charters.

Residing or working within a geographic area that has a common lack of access to financial services may be an indicator of a common bond. Such geographic area likely would have other economic commonalities. Credit unions are encouraged to look at these possible groups and explore their connections to determine whether sufficient evidence of mutuality exists to add such groups, thereby providing needed financial services to underserved groups.

Application Submission, Review, and Approval Process

The Department utilizes letter form applications by credit unions that are well managed and in sound financial condition to amend their bylaws for geographic common bond requests. The letter form application submitted by the credit union shall, at a minimum, address the requirements listed in provision 8 of the “Safety and Soundness Criteria that Apply to Requests for Geographic Common Bond” section of this Guidance. Additional information may be required by the Department based on an analysis of the application. Payment of the applicable fee for each geographic common bond shall also be submitted. The Department’s review of the letter form application will also consider any known, pending matters that may have a material adverse impact on the credit union’s status as well managed and in a sound financial condition.