

CONVERSION FROM A FEDERAL TO A TEXAS-CHARTER CREDIT UNION

Overview

Credit unions are either chartered pursuant to federal law or state law. A federally chartered credit union is subject to the Federal Credit Union Act (12 U.S.C. 1751 et seq.) and the rules and regulations promulgated by the National Credit Union Administration (NCUA) under that Act (12 CFR, Chapter VII, Subchapter A). Texas-chartered credit unions are overseen by the Credit Union Department (Department) and get their powers from the Texas Finance Code, Title 3, Subtitle D (Texas Credit Union Act) and the administrative rules adopted in 7 TEX. ADMIN. CODE, Part 6. In addition, if a Texas chartered credit union is federally insured, NCUA retains some oversight.

Ultimately, any decision to convert charters should reflect the distinctive needs, goals, and structure of each individual credit union, as all credit unions face unique operational issues and the right step for one credit union may not be the right step for another. The Department, however, stands ready to be a resource to help credit unions be in the best position possible to make an informed judgement as to which charter is right for them.

The purpose of this document is to provide a brief summary of the process by which a federal credit union may convert to a state charter in Texas.

The Conversion Process

The following is a checklist of the steps to be taken when a credit union is seeking to convert from a federal to a state chartered credit union.

Step 1 – Before formally submitting any materials, credit unions are encouraged to contact the Department to set up an informational meeting (i.e. by telephone or in person) to discuss the credit union's plans.

Step 2 – To begin the formal process, a credit union's Board of Directors needs to approve a proposition for conversion.

Step 3 – Once the proposition has been approved, the credit union must submit the following information* to the NCUA Region IV Director. (The credit union is also encouraged to provide copies to the Department.) Approval of the NCUA Regional Director is required before any other steps may be taken. The NCUA Regional Director will notify the credit union and the Department of his/her decision.

- a) A current financial report.
- b) A current delinquent loan schedule.

- c) An explanation and appropriate documents relative to any changes in insurance of member accounts.
- d) The Resolution of the Board of Directors. (See NCUA 9501)
- e) A proposed notice of a special meeting of the members. NCUA has a model form to be used for this purpose. (See NCUA Form 4221).
- f) A copy of the ballot that will be sent to all members. NCUA has a model form to be used for this purpose. (See NCUA Form 4506).
- g) An application for continued insurance of accounts. (See NCUA Form 9600).
- h) Evidence that the Department is not opposed to the credit union pursuing its conversion proposal.
- i) A statement of the reasons in support of the request to convert.

*It is important to note that different rules apply to a credit union seeking to also convert to non-federal share insurance. (See 12 CFR, Part 708, Subpart C for the required information that must be submitted to the NCUA Regional Director when converting to non-federal share insurance.)

Step 4 – Once the credit union has the approval of the NCUA Regional Director, it may submit the proposal to the members and set a date for a meeting on the proposal. The meeting may take place at either the annual or a special meeting.

Step 5 – For credit unions continuing federal insurance, send out such notice no more than thirty (30) days and at least ten (10) days prior to the meeting. Appropriate notice is provided in NCUA Form 4221.

Step 6 – For credit unions continuing federal insurance, state the time and place of the meeting on the notice and include a brief description and statement of the reasons for and against conversion. Also, specify the costs associated with the conversion, such as the cost associated with changing the credit union’s name, examination and operation fees, attorneys’ fees and tax liabilities. **State in bold** that the issue will be decided by a majority of those voting.

Step 7 – For credit unions continuing federal insurance, mail a ballot with the notice and inform members that they have a right to vote at the special (or annual) meeting, either in person or by written ballot filed with the credit union no later than the date and time approved for such meeting. (See NCUA Form 4506 for the appropriate ballot).

Step 8 – File an affidavit attesting to such service and notice in the office of the credit union at or before the meeting.

Step 9 – A majority of those voting on the proposal must approve the proposal.

Step 10 – Within ten (10) days, the results of the membership vote must be sent to the NCUA Regional Director. The Statement must be verified by affidavits of the Chief Executive Officer and the Recording Officer on NCUA Form 4505.

Step 11 – The Credit Union should submit an *Application for Conversion from Federal to State Chartered Credit Union* to the Department.

- a) Articles of Incorporation.
- b) Standard Bylaws for State Chartered Credit Unions.
- c) Most recent financial reports and schedule of delinquencies.

Step 12 – Upon receipt of a complete application, the Department will schedule an on-site contact with the credit union. The contact should last no more than 5 days. The credit union will be billed for each hour of time expended on this on-site contact at the rate of \$50 per hour for each examiner.

Step 13 – The Department has 60 days to review the application.

Step 14 – The Department will give preliminary approval of the application if the Department finds that the credit union:

- a) Is financially sound;
- b) Has no material supervisory problems; and
- c) Can reasonably be expected to conduct its operations in a safe and sound manner and in accordance with the laws of this State.

The Department may approve the conversion conditioned upon specific requirements being met.

Step 15 – Subject to any specific requirements being met, the Department will normally issue the certificate of incorporation on a jointly stipulated date within 90 days of the preliminary approval.

Step 16 – The credit union must change its name on all signage, records, accounts, investments, promotional material and other documents as soon as possible, but no later than 180 days from the effective date of the conversion. The credit union must change its name on stationery immediately.

Step 17 – The credit unions must also discontinue using credit cards and ATM cards within 180 days after the effective date of the conversion or the reissue date –whichever is later. The NCUA Regional Director has the discretion to extend the time frame for an additional 180 days. Member share drafts with the old credit union name can be used by the member until depleted.