



Converting Your Credit Union from a Federal to State Charter

Division of Credit Unions

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This manual is meant as a tool for credit unions and is not a substitute for legal advice.

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CREDIT UNION CHARTER CONVERSION - FEDERAL TO STATE

The Dual Chartering System

The dual chartering system offers credit unions a choice between a state and federal charter. The nature of the dual chartering system is that each system develops its own set of policies, creating a competitive tension between the two. There are many similarities and many differences between the policies of each. There are also distinct advantages and disadvantages to each, depending on the business strategy of the credit union. The beneficiaries of this scenario are the credit unions and their members.

Overview of the Washington State Charter for Credit Unions

Regulators and Share Insurance

The National Credit Union Administration (NCUA), under the Federal Credit Union Act and NCUA rules, regulates federally chartered credit unions. The National Credit Union Share Insurance Fund (NCUSIF), administered by the NCUA, insures members' accounts held at federally chartered credit unions.

The Washington Department of Financial Institutions Division or Credit Unions (DCU) is the primary regulator for Washington State-chartered credit unions. Washington credit unions are organized and regulated under the following laws and rules:

1. The Washington State Credit Union Act, [Chapter 31.12](#) of the Revised Code of Washington (RCW); and
2. DCU's rules are set forth in the following Chapters of the Washington Administrative Code (WAC):
 - a. Chapter [208-400](#): Credit Union Corporate Governance;
 - b. Chapter [208-418](#): Fees Charged to Credit Unions and Other Persons;
 - c. Chapter [208-436](#): Rules Governing Supervisory Approval of Credit Union Investment Practices;
 - d. Chapter [208-440](#): Credit Union Participation in Commercial Arrangements with Third Parties;
 - e. Chapter [208-444](#): Miscellaneous Credit Union Rules;
 - f. Chapter [208-460](#): Member Business Loans;
 - g. Chapter [208-472](#): Credit Union Field of Membership;
 - h. Chapter [208-476](#): Credit Union—Other Real Estate Owned;
 - i. Chapter [208-490](#): “Guidance” for Credit Unions; and
 - j. Chapter [208-600](#): Mortgage Lending and Homeownership.

You can also find a copy of Chapter 31.12 of the RCWs and DCU's rules, WACs, on our website at <https://dfi.wa.gov/credit-unions/laws-and-regulation/laws-rules>.

When a federally chartered credit union converts to Washington State charter, it must maintain its share insurance with the NCUSIF ([RCW 31.12.408](#)). Consequently, converted state credit unions are also regulated by the NCUA, through the NCUA's insurance function. The NCUA's "insurance" rules are set forth in Title 12 of the Code of Federal Regulations (CFR) part 741 ([12 CFR 741](#)). Basically, state chartered credit unions must comply with any regulations relating to "Federally Insured Credit Unions" or sections required for insurance purposes in Title 12. Toward the end of this document is a list of NCUA rules that apply to Washington State chartered credit unions. Federal credit unions considering charter conversion should review the NCUA insurance rules, 12 CFR 741, so they are aware of the NCUA's rules, which will apply to them as a state charter.

Examinations

The DCU and NCUA work cooperatively to examine and supervise state credit unions for safety and soundness and for compliance with federal consumer protection laws. In addition, DCU examines for compliance with state laws.

The NCUA does not participate in every state chartered credit union exam. Under our current exam program plan with NCUA's Western Region, we conduct joint examinations as follows:

1. On all state chartered credit unions with total assets over \$1 billion;
2. Infrequently on state credit unions with total assets under \$1 billion that have a CAMELS rating of 1 or 2. Unless there are specific insurance risk factors requiring a joint exam sooner, the NCUA will typically join us once every five years;
3. On a case-by-case basis of state chartered credit unions under \$1 billion with a CAMELS rating of 3; and
4. On all state credit unions with CAMELS ratings of 4 or 5.

Credit unions are notified in advance whether their examination will be joint or not. On joint examinations, DCU's examiner-in-charge meets with management and the Board of Directors, prepares the examination report and CAMELS rating. DCU forwards a copy of the report to the NCUA for their review prior to issuing the report.

Note: NCUA will present its own CAMELS rating on all joint examinations. The NCUA typically does not issue their own report.

Information Systems and Technology (IS&T) Exams

Credit unions must ensure their IS&T systems are safe and sound. DCU typically performs IS&T examinations during regularly scheduled safety and soundness examination.

Funding and Fees

DCU is funded by fees paid by state credit unions and related parties ([RCW 31.12.516\(10\)](#) & [WAC 208-418-040](#)). The fees go into a dedicated, non-appropriated fund. No general fund revenues of the state are used to pay for DCU's operations.

DCU relies primarily on the payment of Semi-annual asset assessments by credit unions for its revenue. Semi-annual asset assessment billings are done in January and July. A converting federal credit union will pay a pro-rated quarterly asset assessment for the 6 month period in which it completes its conversion ([WAC 208-418-040\(3\)](#)).

Below are examples of the DCU's current asset assessments.

Total Assets	Semi-Annual Asset Assessment
\$1 Billion	\$59,616
\$501 Million	\$42,361
\$250 Million	\$23,223
\$100 Million	\$11,766
\$50 Million	\$5,883
\$20 Million	\$2,592
\$10 Million	\$1,726

DCU can also charge hourly fees for the review of certain application requests, and pass-through the costs of examinations performed by third parties under personal service contracts. However, DCU has used these fee charges sparingly in the past ([WAC 208-418-070](#)).

Nonrefundable NCUA Operating Fee

Federal credit unions pay an annual operating fee to the NCUA, payable early in the year. State credit unions do not pay such a fee to the NCUA. The NCUA may not refund operating fees paid by a federal credit union during the year of conversion.

Field of Membership (FOM)

Washington State credit unions enjoy a broader field of membership policy than federal charters ([Division's Explanatory Statement on Field of Membership](#) & [WAC Chapter 208-472](#)).

Financial reporting

State credit unions must continue to file financial reports on forms 5300, with the same frequency as federal credit unions ([12 CFR 741.6](#)).

Taxes

State and federal credit unions are non-profit entities under the Internal Revenue Code, and therefore are exempt from the payment of federal income taxes. However, state credit unions must file individual informational returns annually with the IRS on Form 990.

State and federal credit unions are exempt under Washington statute from the payment of state business and occupation taxes ([RCW 82.04.405](#)).

Federal credit unions are exempt under federal law from the payment of state sales taxes. However, state credit unions do not have this exemption, and therefore must pay taxes on their purchases.

Advantages and Disadvantages of a State Charter

Advantages

The following are some of the advantages of being a Washington State chartered credit union:

- Local regulator operating smaller agency with statewide as opposed to nationwide outlook;
- Local legislature and legislators;
- More expansive set of state powers and authorities (such as statewide field of membership and less restrictive member business loan limits);
- Ability to continue to exercise federal powers, through the state “parity provision” ([RCW 31.12.404](#)); and
- Opportunity to build consensus with Division on regulatory policy, such as modernization of Washington State Credit Union Act and Division rules.

Disadvantage

The following is a disadvantage of a Washington State chartered credit union:

- The additional cost of sales tax on Washington purchases.

The Charter Conversion Process

Applicable Statutes and Rules

To convert to a WA state charter, a federal credit union must comply with the following provisions:

1. [RCW 31.12.467](#) – Merger or conversion of a federal out-of-state, or foreign to a state credit union;
2. [Section 125\(a\) of the Federal Credit Union Act \(12 U.S.C. 1771\(a\)\)](#). Section 125 of the Federal Credit Union Act and 12 U.S.C 1771 are synonymous and titled “Conversion from Federal to State credit union and from State to Federal credit union”;

3. NCUA Rules at 12 CFR Section 701.1. The title of this Section is “Federal Credit Union Chartering, Field of Membership Modifications, and Conversions” ([12 CFR 701.1](#));
4. Chapter 4, NCUA Chartering & FOM Manual, located in Appendix B of 12 CFR 701 ([Appendix B to Part 701](#)).

Additionally, the conversion must be completed in accordance with any applicable provisions of the federal credit union’s charter and bylaws. The credit union may continue to use the same name, except for the word “federal” ([Appendix B to Part 701](#)).

Field of Membership (FOM) of the Converted Credit Union

The Washington State Credit Union Act includes a “parity provision,” [RCW 31.12.404](#) that grants state credit unions all the powers and authorities conferred on federal credit unions as of December 31, 1993 or a subsequent date no later than June 9, 2022.

Generally, FOM expansions by federal credit unions approved by the NCUA after 1993 were based on powers and authorities existing on or before December 31, 1993. Accordingly, a converted credit union may keep the field of membership it had as a federal charter. In order to simplify conversions, we prefer not to address FOM expansion requests in the conversion process. Subsequent to the conversion, the state credit union may include additional groups in its FOM, in accordance with DCU’s rules set forth in [WAC 208-472](#).

Major Conversion Steps

The major steps for conversion are as follows:

1. The credit union’s Board adopts the conversion proposal (by at least a majority vote);
2. The credit union files an application to convert with DCU;
3. The credit union files an application to convert with the NCUA’s Western Region;
4. DCU approves the application;
5. NCUA’s Western Region approves the application;
6. The credit union distributes a notice of the meeting to its members, including disclosures approved by the NCUA;
7. The members of the credit union approve the conversion (by at least a majority of those voting);
8. The credit union files the necessary documentation with DCU and NCUA’s Western Region;
9. The credit union files the articles of conversion and the articles of incorporation with the Secretary of State to complete the conversion; and
10. The credit union provides copies of the filed and stamped Secretary of State articles of conversion and the articles of incorporation to DCU and NCUA’s Western Region.

A federal credit union may not take its conversion plan to a membership vote until after it has received approval from both DCU and NCUA’s Western Region.

Time Period for Conversion

In the absence of any unusual complications, a federal credit union can anticipate completion of its conversion within 90-120 days after filing its application.

Conversion Forms

NCUA requires completion and filing of certain forms for the conversion. These forms include:

1. [NCUA 4221](#) – Notice of Meeting of the Members to Convert from a Federal to State Chartered Credit Union;
2. [NCUA 4505](#) – Affidavit - Proof of Results of Membership Vote - Proposed Conversion From Federal Credit Union to State Credit Union;
3. [NCUA 4506](#) – Federal to State Conversion - Ballot for Conversion Proposal; and
4. [NCUA 9600](#) – Information to be Provided in Support of the Application of a State Chartered Credit Union for Insurance of Accounts.

In the interest of efficiency, DCU accepts these forms for its purposes as well. If you wish to revise the NCUA forms or create your own, you will need prior approval from DCU and the NCUA.

Possibility of a Conversion Exam

DCU, NCUA, or both may require an on-site examination. Therefore, the credit union should allow at least 60 days after filing the conversion applications to obtain DCU and NCUA's Western Region approvals. More time may be needed, if an examination requires corrective actions by the credit union prior to the conversion.

Notice to Members

The converting federal credit union must prepare a notice of meeting of its members, which must disclose the anticipated costs of the conversion, as well as reasons for and against the conversion, see Section III.E of Chapter 4 of the NCUA Chartering & FOM manual ([Appendix B to Part 701](#)). The NCUA is particularly concerned with disclosing the costs of eliminating the word "federal" from the credit union's name. Converting credit unions must arrange for the issuance of new credit cards and check stock to members with the new name within a reasonable period of time after the conversion is completed, see Section III.G of Chapter 4 of the NCUA Chartering & FOM manual ([Appendix B to Part 701](#)).

We recommend that you contact other converted credit unions for additional insights.

Conversion Application Filed with NCUA's Western Region

The conversion application filed with NCUA's Western Region should contain the following:

- Statement of specific reasons supporting the conversion;
- Copy of the credit union's most recent balance sheet and income statement;

- Current schedule of delinquent loans;
- Board resolution reflecting approval of the conversion proposal by at least a majority vote;
- Information to be Provided in Support of the Application of a State Chartered Credit Union for Insurance of Accounts ([NCUA form 9600](#));
- Proposed Notice of Meeting of the Members ([NCUA form 4221](#));
- Proposed Ballot for Conversion Proposal ([NCUA form 4506](#)); and
- Evidence that DCU is in agreement with the conversion proposal.

Conversion Application Filed with DCU

The conversion application filed with DCU should contain the following:

- Cover letter, including the name of the contact person at the credit union, and a brief description of the credit union’s business operations, including any out-of-state operations;
- Copy of the application documents and information filed with NCUA’s Western Region;
- Copy of the most recent NCUA examination report and the credit union’s response to the report;
- Copy of credit union’s current charter and bylaws; and
- Proposed articles of incorporation and bylaws for the state credit union, including an opinion of counsel that the articles and bylaws comply with [RCW 31.12](#).

The converting credit union may continue to use its Federal bylaws, with appropriate changes (names, etc.). If the credit union is conducting business in another state, DCU will work with the other state’s regulator to determine if the credit union must qualify to conduct business in the other state.

Membership Vote

Once DCU and the NCUA’s Western Region approve the conversion, the conversion plan must be approved by a majority vote of the credit union’s membership. Voting alternatives should include in-person at the annual or special membership meeting, and by mail-in ballot or completed ballot drop-off at a credit union. Secure electronic voting methods can also be used ([Section 125\(a\) of the Federal Credit Union Act \(12 U.S.C. 1771\(a\)\)](#)).

Completion of the Conversion

After approval of the conversion by DCU, NCUA’s Western Region, and the credit union’s members, the credit union may take the steps necessary to complete the conversion process. The conversion must be completed within 90 days after the membership vote ([Section 125\(a\) of the Federal Credit Union Act \(12 U.S.C. 1771\(a\)\)](#)).

To complete the conversion, the following must be submitted to:

1. DCU:
 - Certification from the NCUA that it is satisfied with the procedures and presentation of the issues leading to the vote and its results;
 - Completed Articles of Conversion (DCU form), see page 21; and
 - NCUA form 4505.

2. NCUA's Western Region:
 - NCUA Form 4505;
 - Copy of the Articles of Conversion, bearing the stamp of the Secretary of State;
 - The credit union's federal charter and federal insurance certificate; and
 - The credit union's most recent month-end financial reports on NCUA Form 109A and 109B.

The conversion is complete when the credit union's Articles of Conversion and the Articles of Incorporation are filed with the Washington Secretary of State. The credit union should immediately file a copy of these Articles, bearing the stamp of the Washington Secretary of State, with DCU and the NCUA's Western Region, but no later than 10 days after the Articles are filed with the Washington Secretary of State. There is a need for immediacy here, because the existence of the federal credit union does not apparently cease until the filing is made with NCUA's Western Region, see Section III.G of Chapter 4 of the NCUA Chartering & FOM manual ([Appendix B to Part 701](#)). The NCUA will issue a new insurance certificate to the newly formed state credit union.

Transfer of Assets and Liabilities

Upon the conversion date, the state credit union succeeds to all the assets and liabilities of the federal credit union ([RCW 31.12.467](#), [Federal Credit Union Act at Section 125\(a\)\(4\)](#), and [12 U.S.C. 1771\(a\)\(4\)](#)).

Name Change

If, because of the conversion, the credit union needs to change the name it uses in its signs, advertising, stationery, etc. The credit union should make the change as soon as possible after the conversion. The credit union will need to notify appropriate parties of the name change, such as bonding companies, title companies, etc.

Please see our website for the necessary procedures to complete a name change ([Division of Credit Unions Credit Union Name Change "How to" Manual June 2018](#)).

NCUA's Western Region Contact

To contact NCUA's Western Region regarding conversions, call or write to:

NCUA Western Region

1230 W. Washington Street, Suite 301

Tempe, AZ 85288-1249

Phone: (602) 302-6000

NCUA RULES APPLICABLE TO FEDERALLY- INSURED, WASHINGTON STATE CHARTERED CREDIT UNIONS

Last revised on 2/1/2023

[12 CFR 701.14](#)

Change in Official or Senior Executive Officer in Credit Unions that are Newly Chartered or are in Troubled Condition

[12 CFR 702](#)

Capital Adequacy - Prompt Corrective Action

[12 CFR 707](#)

Truth in Savings

[12 CFR 708a](#)

Bank Conversions and Mergers

[12 CFR 708b](#)

Mergers of Federally Insured Credit Unions; Voluntary Termination or Conversion of Insured Status

[12 CFR 709](#)

Involuntary Liquidation of Federal Credit Unions and Adjudication of Creditor Claims Involving Federally Insured Credit Unions in Liquidation

[12 CFR 711](#)

Management Official Interlocks

[12 CFR 713](#)

Fidelity Bond and Insurance Coverage for Federal Credit Unions

[12 CFR 715](#)

Supervisory Committee Audits and Verifications

[12 CFR 722](#)

Appraisals

[12 CFR 725](#)

NCUA Central Liquidity Facility

[12 CFR 740](#)

Accuracy of Advertising and Notice of Insured Status

[12 CFR 741](#)

Requirements for Insurance

[12 CFR 745](#)

Share Insurance and Appendix

[12 CFR 747](#)

Administration Actions, Adjudicative Hearings, Rules of Practice and Procedure, and Investigations

[12 CFR 748](#)

Security Program, Report of Suspected Crimes, Suspicious Transactions, Catastrophic Acts, and Bank Secrecy Act Compliance

[12 CFR 749](#)

Records Preservation Program and Appendices – Record Retention Guidelines, Catastrophic Act Preparedness Guidelines

[12 CFR 760](#)

Loans in Areas Having Special Flood Hazards

DIVISION'S EXPLANATORY STATEMENT ON FIELD OF MEMBERSHIP

Last revised 2/1/2003

Field of Membership (FOM) Statutes, Rules, and Guidelines

Generally

The Washington State Credit Union Act ("Act"), Revised Code of Washington [\(RCW\) 31.12](#), sets forth the FOM requirements for state credit unions. These statutory requirements are brief:

RCW 31.12.382

Limitation on membership

- (1) Membership in a credit union shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district. The director may adopt rules:
 - (a) Reasonably defining "common bond"; and
 - (b) setting forth standards for the approval of charters.
- (2) The director may approve the inclusion within the field of membership of a credit union a group having a separate common bond if the director determines that the group is not of sufficient size or resources to support a viable credit union of its own.

[1994 c 92 § 178; 1984 c 31 § 6. Formerly RCW 31.12.045.]

RCW 31.12.384

Membership

- (1) A credit union may admit to membership those persons qualified for membership as set forth in its bylaws.
- (2) An organization whose membership, ownership, or employees are comprised principally of persons who are eligible for membership in the credit union may become a member of the credit union.

[1997 c 397 § 27; 1984 c 31 § 16. Formerly RCW 31.12.145.]

These provisions of the Act are implemented by DCU's rules set forth in [WAC 208-472](#).

Types of FOMs

Washington State chartered credit unions may include occupational groups, associational groups, or community groups in their FOM. A credit union may have one, or more, of each of these types of groups in its FOM ([RCW 31.12.382](#) and [WAC 208-472-010](#)).

Occupational Groups ([WAC 208-472-015\(10\)](#))

A credit union with a current composite CAMELS rating of 1 or 2 may add qualified occupational groups, as defined in [WAC 208-472-015\(14\)](#) if it meets the requirements of [WAC 208-472-020\(2\)\(a\)](#).

Associational Groups ([WAC 208-472-015\(2\)](#))

Associations must be comprised primarily (50% + 1) of natural persons. Business members of an association and other associated persons defined in the rule may be members of the credit union. A credit union with a current composite CAMELS rating of 1 or 2 may add qualified associational groups, as defined in [WAC 208-472-015\(12\)](#), if it meets the requirements of [WAC 208-472-020\(2\)\(a\)](#).

Communities ([WAC 208-472-015\(4\)](#))

A credit union with a community charter in its FOM may take as a member any person who lives, works, worships, or goes to school in the community ([WAC 208-472-015\(4\)](#) and [RCW 31.12.382](#)). In addition, a credit union with a community FOM may take as a member any business that is located in the

Community ([RCW 31.12.384](#))

A credit union applying to add a community to its FOM does not have to give up any of its select employer groups (SEGs) or associational groups in the community.

As previously indicated, a credit union may include more than one community in its FOM. These communities may be physically separate and distinct, or they may be contiguous. A credit union with a current composite CAMELS rating of 1 or 2 may add qualified community groups, as defined in [WAC 208-472-015\(13\)](#), if it meets the requirements of [WAC 208-472-020\(2\)\(a\)](#).

Limitations on direct marketing to occupational and associational groups

A credit union may not conduct direct marketing targeted primarily at the persons in an occupational or associational group, unless the group was included in the FOM bylaws of the credit union prior to March 8, 2002 or a management official of the occupational or associational group has provided the credit union with a written statement, signed by the official, that the groups desires service by the credit union ([WAC 208-472-030](#)).

Application requirements for credit unions currently rated composite CAMELS 3, 4, or 5

Credit unions with a current CAMELS composite rating of 3, 4, or 5 are not eligible to add FOM groups under the streamlined procedures. In such cases, an application must be made to the Division of Credit U requesting FOM expansion. Applications must include the items required in [WAC 208-472-025\(1\)](#).

ARTICLES OF CONVERSION OF AN OUT-OF-STATE OR FEDERAL CREDIT UNION TO A WASHINGTON STATE CHARTERED CREDIT UNION

Submit original and one copy

UBI # of Converted Credit Union

Phone # of Credit Union

To Credit Union: Please type or print in black ink.

1. These Articles of Conversion concern the conversion of

(Converting Credit Union) to

(Converted Credit Union)
2. The Converting Credit Union is [check one]:
 A. Operating under the Federal Credit Union Act; or
 B. Operating under the law of the State of _____
3. The Converted Credit Union will be operating under Chapter 31.12 RCW.
4. The board of directors and members of the Converting Credit Union have given all required approvals of the conversion, in accordance with applicable law.
5. The conversion has received all necessary regulatory approvals.
6. The conversion will be effective [check one]:
 A. As of the close of business on the date this Articles of Conversion document is filed with the Secretary of State; or
 B. At the time and on the date specified below, which in no event is more than 90 days after the date this Articles of Conversion document is filed with the Secretary of State:

Date

Articles of Conversion of Credit Union
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7. The undersigned Officer hereby represents to the best of his or her knowledge that this document is true and correct.

Signature of Credit Union Officer, Title

Date

Approved for filing:

Assistant Director, Division of Credit Unions
Department of Financial Institutions

Date