



## **STATE CHARTER CONVERSION FREQUENTLY ASKED QUESTIONS (FAQS)**

### **What is the difference between a state and federal chartered credit union?**

A federal charter means the credit union is regulated by the National Credit Union Administration (NCUA). A state charter means the credit union's primary regulator is the State of Minnesota, Department of Commerce.

### **Is this anything like a conversion to a bank, or will it lead to a buyout or a merger?**

No. This is not a merger, nor is it a conversion to a bank, but simply a conversion from a Federal credit union charter to a State of Minnesota credit union charter. TopLine has always been and will continue to be a credit union and provide our members with all the advantages that being a credit union entail. TopLine remains committed to the cooperative principles upon which we were founded in 1935. We are extremely well-positioned and strong financially, with no intention to merge or convert to a bank.

### **Will my member voting rights as a member change with the new charter?**

No. Each member's voting rights will remain the same.

### **Will there be any changes to my accounts, direct deposits, automatic payments or to the services I use?**

No. Everything will remain the same. Account numbers, passwords, PINs will not change, direct deposits and automatic payments will come in as usual, and our existing branches and call center, and business hours will remain the same. Our ATMs will remain the same and will continue to offer 24/7 access with mobile and online banking, and automated phone banking. We will still continue to participate in and offer Shared Branching services. It will be business as usual for members and will be a seamless transition.

### **Will new debit and credit cards be issued with the new credit union name? What about checks?**

No. You will continue to use your current debit and credit cards. As cards expire, new cards will be issued with our new name, TopLine Financial Credit Union. Members will also continue to use their existing TopLine checks until they need a reorder.

### **Will I need to order new checks?**

No. Members will also continue to use their existing TopLine checks until they need a reorder.

### **Will the website address, phone numbers, mailing address or email addresses change?**

No. Our website, phone numbers, mailing address and emails addresses will stay the same.

**Will my TopLine accounts still be federally insured?**

Yes. TopLine deposit accounts will continue to be federally insured by our current federal government agency, the National Credit Union Administration's Share Insurance Fund. IRA and KEOGH retirement accounts have additional coverage. There will be no change in deposit insurance.

**Under a state charter, will there be any change to the Shared Branching services?**

No. Everything will remain the same. We will still continue to participate in and offer Shared Branching services. It will be business as usual for members and will be a seamless transition.

**Under a state charter, will there be any change to the ATM network?**

No. Everything will remain the same. Our ATMs will remain the same and will continue to offer 24/7 access with mobile and online banking, and automated phone banking. We will also still continue to participate in and offer Shared Branching services. It will be business as usual for members and will be a seamless transition.

**Will there be any changes to member service and TopLine teams?**

Since we were founded in 1935, TopLine has existed to serve our members. TopLine will continue to offer the same great products and the exceptional Red Book service that our members expect. Our branch locations and our branch teams, along with call center and all other member-facing and back-office teams will stay consistent so you can expect to see and continue to work with the same TopLine employees that you have come to know.

**Will there be any change in TopLine's rates and fees?**

Deposit and loan rates and the current fee structure will not be impacted by the charter change.

**Will TopLine still offer business accounts and provide business loans?**

Yes, if you have a business account with us, we will continue to serve you as we always have. TopLine will continue to offer a wide array of member-business loan products along with the exceptional member service to our business accountholders and partners that you have come to expect from us.

**Under a state charter, can I still be a member if you move outside of the eligible service areas?**

"Once a member, always a member!" Yes, you can still be a member if you relocate outside of the TopLine's field of membership. We have and continue to invest heavily in our digital banking channels to serve members wherever they live. Our investment in technology infrastructure and our need to continue investing is an important reason we are seeking to expand our field of membership.

**Will there be any changes to the Board of Directors, Supervisory Committee or TopLine Management Team?**

No. The TopLine Board of Directors, Supervisory Committee and TopLine Management Team will continue to fill their respective duties in serving our members.

## **What are the advantages of converting from a federally chartered to a state-chartered credit union?**

TopLine's board of directors and executive council have been exploring the most advantageous avenues to accelerate our credit union's growth. To continue our financial strength and for future growth, it's in our best interest to change from a federal charter to a State of Minnesota charter. By converting to a state-chartered credit union, TopLine will continue to serve and offer membership to individuals and their immediate families, businesses, and other legal entities who live, work, worship, attend school or volunteer in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington in Minnesota and expand into four additional counties: Chisago, Isanti, Sherburne, and Wright.

TopLine has the opportunity to expand our field of membership more easily under a State of Minnesota charter than under the current federal policies and provides greater flexibility to meet future member needs. Our research shows that it would be difficult to obtain our desired geographic areas under Federal policies, which are obtainable under State of Minnesota policies.

As well, expanding our field of membership area allows us to broaden our reach in more communities, to serve more individuals, families and small business owners, to act as a resource to advocate for financial well-being, as well as support additional social responsibility efforts to positively impact growing needs. This expansion also helps us diversify our membership base to drive TopLine's long-term growth and success as a competitive credit union to better withstand future economic changes.

Growth from this conversion will enhance our ability to keep our dividend and loan rates competitive in the marketplace and allow continued investment in new products and services, branch locations, delivery channels and other partnerships. This may include enhanced electronic services, increased ATM and ITM availability, video conferencing and branch expansion.

In addition, the board and management prefer to have a regulator that is geographically near us, one that can be more responsive to our communications and needs. Our credit union is currently supervised by the NCUA Western Region located in Tempe, Arizona. As a State of Minnesota credit union our regulator would be the Minnesota Department of Commerce which is conveniently located in St. Paul, Minnesota.

## **What will TopLine's Field of Membership be under a State Charter?**

Persons who live, work, worship, attend school, or volunteer in, and businesses and other legal entities in the Minnesota Counties of Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright, along with their immediate family members.

## **Why is TopLine changing to a State Charter?**

Conversion to a State Charter will make it simpler for those interested in joining TopLine as we will expand our service area to include the eleven-county metro area. The expanded service area will allow us to add additional branches and electronic access. It will also generate additional resources and improve efficiency, which will provide more product and service options, competitiveness and expanded delivery systems. As a state-chartered credit union, TopLine can more easily work directly with regulators and legislators to improve regulations and laws on behalf of all credit union members.

### **Why is a State Charter better for TopLine than a Federal Charter?**

The State Charter allows more flexibility in our field of membership which supports our long-term growth plans. As a State Charter, TopLine has the opportunity to add counties to our proposed field of membership where we can add additional branches and/or electronic service capabilities to better serve our members and a broader community. As well, expanding our field of membership area allows us to broaden our reach in more communities, to serve more individuals, families and small business owners, to act as a resource to advocate for financial well-being, as well as support additional social responsibility efforts to positively impact growing needs. This expansion also helps us diversify our membership base to drive TopLine's long-term growth and success as a competitive credit union to better withstand future economic changes.

### **Will the credit union's name change?**

Yes. The word "Federal" will be removed from the name and we will be known as **TopLine Financial Credit Union**. This is the most significant change and will require a transition of our name and logo over a 180-day timeframe based on a decided upon conversation date later this year.

### **Does the Board of Directors need to approve the charter change?**

Yes. The TopLine Board of Directors has already unanimously approved the charter change proposal.

### **Do members need to approve the charter change?**

Yes. TopLine members need to vote to approve the charter change proposal. An informational letter and a ballot will be mailed to all eligible members on April 8, 2022. **Members will need to vote by ballot mailed.**

As well a special members' meeting is required to be held. This meeting will be held via audio conference on May 24, 2022 at 4:00 pm. To participate, members need to dial **1-800-285-6670 (toll free)**. All participants will be greeted, asked for their name and will be placed on hold music prior to the start of the conference call. Once the call begins, all participants will be muted. All participants will have the ability to be placed in a queue to ask questions.

According to Minnesota statutes, "each member shall have one vote. A majority of the votes cast by ballot by the members is required to approve the conversion." This proposition will be decided by a majority of the members who vote.

### **Does the Minnesota Department of Commerce have to approve the charter change?**

Yes. The Minnesota Department of Commerce has preliminary approved the change from federal to state charter pending member vote and special member meeting on May 24, 2022. Once approved by the members, then the state of Minnesota has up to 60-days to formally approve the charter conversion.

### **Does the National Credit Union Administration (NCUA) have to approve the charter change?**

Yes. The National Credit Union Administration (NCUA) has preliminary approved the change from federal to state charter pending member vote and special member meeting on May 24, 2022. Once approved by the members, then the Minnesota Department of Commerce has up to 60-days to formally approve the charter conversion.

### **When will the conversion take place?**

The conversion will tentatively be effective as of August 1, 2022, if approved by members and the state.

### **What are the financial impacts of the charter change?**

As outlined in the notice to members, there are one-time costs and a change in our annual expenses. However, the decrease in NCUA exam fees is balanced out by the sales tax as a state-chartered credit union and we will see a net decrease of approximately \$52,000 in 2023, and as the credit union grows that amount will change. Management is confident that the income and growth opportunities associated with this proposed change outweigh the costs to convert.

### **What will TopLine be paying sales tax on?**

As a State Chartered Credit Union, Minnesota State Sales Tax applies to goods and services as it does for all other individuals and businesses. TopLine would be subject to a sales tax on purchases. The federal sales tax exemption will be eliminated. The amount of this sales tax is estimated to be less than \$55,000 in 2023, and as the credit union grows that amount will change.

### **How does TopLine justify the cost to convert to a State Charter?**

As a federal chartered credit union our annual fees are based on our assets size. As we grow so do our annual fees. In 2021 our expense was \$110,000. By converting to a state charter, we will be saving an estimated \$108,000 in fees in 2023, and as the credit union grows that amount will change.

- **One-time costs** - We will incur some one-time costs for the conversion, much of it for re-branding (removing "Federal" from the name). We are planning on this brand refresh regardless of the charter change, so much of that cost would be incurred anyway, but there is some one-time cost that we will pay to complete the process. We expect the benefits to more than make up for the one-time costs, however enhancing our field of membership and adding new members provides financial benefit to all members.
- **Annual Operating Costs.** We will now have to pay sales tax, so that is a new ongoing cost. That new ongoing cost will be mainly **offset**, however, by an annual reduction in our examination fees by going from federal (much higher cost) to state (lower cost). In other words, the costs net out in such a way that our annual operating expenses will not be significantly different.

**How does TopLine justify the sales tax cost?**

When we look at the net difference in total costs of regulatory fees as a State vs Federal Chartered Credit Union, we will see a net decrease of \$108,000 in 2023 once we are operating as a State Chartered Credit Union, and as the credit union grows that amount will change. Aside from the sales tax, we will see a decrease in exam fees when we begin working with the MN Department of Commerce versus the NCUA, which equate to a large reduction in exam costs.

**Have other credit unions successfully converted?**

Yes, we consulted with several Minnesota State Chartered Credit Unions who have successfully converted over the last several years. Wings being one of the largest and Hiway most recently in 2021. In Minnesota, nearly 70% of all credit unions are state chartered credit unions.

**How do the state regulations for credit unions compare to federal regulations? Are they more or less protective of consumers than the federal regulations?**

Federal Banking Regulations still apply (Truth in Savings, Truth in Lending, Regulations CC, BSA, HMDA, etc.). In cases where the state statutes are silent, the State of Minnesota defers to NCUA Guidance. While the Minnesota Department of Commerce is our primary regulatory contact, in most cases, NCUA rules will apply to TopLine as we will remain insured by NCUA. The current protections in place for our members will remain as a state-chartered credit union.