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Investment centers that are feasible in a credit union

Sondra Kay Vick

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INVESTMENT CENTERS THAT ARE FEASIBLE IN A CREDIT UNION

A Project
Present to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
Of the Requirements for the Degree
Master of Business Administration

by
Sondra Kay Vick
March 2000
INVESTMENT CENTERS THAT ARE FEASIBLE IN
A CREDIT UNION

A Project
Presented to the
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Mohamad Yaziri, Chair, Accounting and Finance
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Lihvol Henry
ABSTRACT

This project will identify the options available to a credit union desiring to open an office of the securities industry to provide investment products and advisory services to its member. The three options identified are becoming a branch office of an established broker/dealer, becoming an introducing broker/dealer, or purchasing an existing broker/dealer. An analysis will identify the required needs of an account executive in a computer system, client statements, and client confirmations. It will also analyze the capital requirements, the expenses of opening and running an office, fees charged to clients, and the licenses required. This project will show that any of these three options are feasible for a credit union but which option is chosen will be determined by the size and capital of the credit union undertaking this business venture.
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DEFINITION OF TERMS

Annuity - A contract between an insurance company and an individual, which generally guarantees lifetime income to the person on whose life the contract is based in return for either a lump sum or a periodic payment to the insurance company.

Broker - An individual or firm that charges a fee or commission for executing buy and sell orders submitted by another individual or firm. The role of a broker firm when it acts as an agent for a customer and charges the customer a commission for its services.

Clearing Broker - A broker-dealer that clears its own trades, as well as trades of introducing brokers. A clearing broker-dealer can hold customers’ securities and cash.

CUSIP - Committee on Uniform Securities Identification Procedures - A committee that assigns identification numbers and codes to all securities, to be used when recording all buy and sell orders.

Dealer - The role of a brokerage firm when it acts as a principal in a particular trade. Any person who is engaged in the business of buying and selling securities for their own account either directly or through a broker, and who is not a bank, is considered a dealer.

Holding Company - A Company organized to invest in and manage other corporations.

Introducing Broker - A broker-dealer that does not hold investors’ money or securities. Instead, it introduces those accounts to a clearing broker-dealer, which then handles all cash and securities for those accounts.

Listed Equity - A security that is traded on a regional or national securities exchange such as the New York Stock Exchange.

Mutual Fund - A type of investment company that offers for sale or has outstanding securities that it has issued that are redeemable on demand by the fund at current net asset value. All owners in the fund share in the gains or losses of the fund.
Networking - An automated, centralized recordkeeping system through which all customer account level information other than order processing can be exchanged between mutual fund firms and other financial institutions.

Over The Counter (OTC) - A security that is not listed or traded on a recognized exchange. Both listed and unlisted (OTC) securities as well as municipal and U.S. government securities are traded in the OTC Market. OTC trading takes place over computer and telephone networks that link brokers and dealers around the world.

Securities Information Center - The organization designated by the SEC to act as a central data bank for records of lost and stolen securities.

Securities Investor Protection Corporation (SIPC) - A nonprofit membership corporation created by an act of Congress to protect clients of brokerage firms that are forced into bankruptcy.

Account Executive - All associated persons engaged in the investment banking and securities business that have passed on exam for licensing purposes to register with the NASD.

NASD - National Association of Securities Dealers is the self-regulatory organization for the Securities and Exchange Commission (SEC).

Unit Investment Trust (UIT) - An investment company that has its own portfolio of securities in which it sells interests in this portfolio in the form of redeemable securities. Unit Investment trusts are organized under a trust indenture, not a corporation charter.
Chapter One

INTRODUCTION

In December 1984, the U.S. Supreme Court approved Bank America's purchase of Charles Schwab, opening the way for banks to join forces with securities brokers. Since then banks and credit unions have put into place innovative programs to provide brokerage services to their clients. While there are efforts in Congress to implement Glass-Steagall reform, the principle efforts appear to be directed toward the ability of banks to offer insurance products. H.R. 1062 would allow mergers between banks and securities firms, but imposed a five-year moratorium on the comptroller of the currency from naming new bank insurance products.

On March 4, 1999, the Senate Committee on Banking, Housing and Urban Affairs approved the Financial Services Modernization Act of 1999, which became known as the Gramm-Leach-Bliley Act. This act will enable consumers to conduct their banking, securities and insurance business in one location creating a supermarket for financial services. The obstacles between insurance and banking and between securities and banking were enacted over sixty years ago.
The growth of these industries, banking, insurance and securities, created a host of regulators to ensure that the consumer is protected and receives information that is truthful and accurate on which to basis their financial decisions at the lowest possible cost. This act creates open competition between the insurance, banking and securities industries.

The approaches used by most financial institutions to enter the securities brokerage business have taken three principle forms. First, many community-based credit unions have established contractual marketing agreements with broker/dealers. Second, some of the larger institutions have purchased broker/dealer; Nations Bank bought Dean Witter, which is now Morgan Stanley Dean Witter. Some institutions started their own broker/dealer subsidiaries; Bank America started Investment Network of America. Wells Fargo established their own family of mutual funds, "The Stagecoach Funds," and Citicorp and Chase Manhattan have also launched successful mutual funds.

The continuing revolution in the financial services industry ultimately threatens the Credit Union's most valuable assets - the relationship with the members. As
part of this revolution, financial institutions are crossing traditional boundaries and redefining their roles in the marketplace. The trend is toward diversified financial companies with multiple subsidiaries directed toward serving the total financial needs of their clients.

The credit unions have always faced competition for their members’ deposits from other depository institutions and from investment firms; however, the environment has become intensely competitive with financial institutions offering consumers “one-stop financial shopping” which includes a full array of deposits and investment services. The Credit Union can position themselves strategically to compete in this environment through the establishment of securities brokerage and financial planning services for their members. The offer to expand investment alternatives will not enhance the Credit Unions’ ability to protect the member relationship, but will include other benefits such as the production of a growing fee income stream.
DESIRED REQUIREMENTS

One of the desired needs of an account executive is in the ease and clarity in reading a client's statement. Some clients want to receive only one monthly statement for all their investments. A statement should give the clients account number, the name of the account executive with address and telephone number for ease in contacting the account executive, and the client's taxpayer tax identification number, which is usually the social security number (Appendix A).

A detailed statement, with the total value of the portfolio should be subdivided with the dollar amount in a money market account and the amount of dividends paid each month with a cumulative total. The value of stocks, mutual funds, number of shares owned, annuities and any other investment in the client's portfolio with the percentage of each type of investment in his portfolio. The statement should reflect the instruction for the disposition of dividend and capital gains on stocks and mutual funds. The client has two options with dividend and capital gains distributions; they can be reinvested or received in cash. Dividends on stock are usually sent to the client or
transferred to a money market account while mutual funds are usually reinvested unless the client requires the money be mailed to them.

Another subdivision on the statement should list all transactions that have taken place in the account since the last statement. The client should be able to compare the value of the previous month's investment portfolio to the current value.

The client should receive a confirmation every time a buy or sell is made from the account. The buy confirmation should state the number of shares purchased, the symbol of the security, the price per share, the total amount of the purchase, and the commission charged by the account executive. A confirmation also shows which stock exchange was used to purchase the security, the CUSIP number, and if the clearing broker-dealer acted as agent or as principal (Appendix A).

An efficient broker-dealer should have access to a couple of different types of software systems. One system gives the account executive up to the minutes quotes on all equities traded on the various stock exchanges. The second system gives the account executive access to his client's
investment portfolio detailing the positions held and current market value. The account executive desires a computer system that has real time stock quotes, up to the minute quotes instead of fifteen minute delay, automated order entry, trade execution reports, and complete client account data information. "Clearing firms, across the board, have been making increasingly heavy investments in technology to enhance their businesses and to help their clients succeed". (Bank Securities Journal 20).

Production data for the account executive showing details of the gross dollar amount of investments and gross commission due the account executive through the back-office. The Bank Securities Journal says, "Many of the back-office fixed costs stay at the clearing firm. Transaction expenses go down along with declining transaction volumes" (pg 20).

A stock charting service that graphs the present and historical prices and volume of an equity or mutual fund with technical studies, trend lines and moving averages. The ability to integrate real-time quotes with a
spreadsheet to update real-time markets data in a client’s portfolio. Research data should be easily accessed through the back-office of the clearing broker-dealer.

An asset allocation feature to assist in determining the assets of the client, financial goals of the client and how to reach those goals. The computer system should have the ability to receive financial headlines and news stories that may impact a client’s investment portfolio.

The AE Advantage Quotron system, which offers data electronic trade entry and sales support information, can be a back-office system. This system provides access to complete market information, with real-time quotes on stocks, and previous night’s closing price on mutual funds. Two of the news sources are Reuters and the Dow Jones News Services with scrolling headlines, headlines by category and full story text retrieval. The charting feature has historical high, low and closing prices and volume of equities. A chart with trend lines will assist in the study of a particular equity. The computer is linked to the system by special cables linked to a satellite cabletron hub.
Asset allocation 2000 software is a specially designed marketing program with support software showing clients the organization of their assets, how well they are currently diversified, performing, and models for changing the asset mix. The Matched Asset Program is a risk analysis software program designed to generate an investment proposal customized for the account executives client financial goals. This program shows risk adverse clients how to match guaranteed investments such as zero coupon bonds with the proper mix of growth investments such as mutual funds or stocks to enhance the clients return while minimizing the clients risk by diversifying the clients assets.

There are several manual input order keeping system available to an account executive to keep track of all clients transaction, either through the clearing broker-dealer or direct with the mutual fund company. Buy and sell transactions entered from confirmations received from mutual fund, annuity companies or equity trades are entered at the account executives back-office and then automatically and immediately posts to the client page, securities cross-reference records, and the daily buy/sell blotter. This eliminates the need for keeping three sets
of paper record books, i.e. a client security card, a client card and a daily buy/sell blotter. Using a manual computer entry of transactions reduces costly errors because the information is entered only once instead of three times. NASD compliance requires the entry and tracking of all transactions to these three areas. Computer software packages are also able to streamline client follow up contacts by being able to integrate with a word processing program for sending out letters.

Software packages for back office used for investment management technology have been streamlined and automated to integrates the investment management process with the various mutual fund and annuities companies to gain a superior, customizable reporting with graphics to enhance client services. These software packages work in conjunction with other companies that take the investment information from the mutual fund and annuity companies and compiles the information into one program which downloads daily into the account executives back office. This is a fully automated system that enters all buy and sell transactions and in turn automatically posts to the client page, securities cross-reference records, and the buy/sell
blotter. This eliminates the need to manually keep three record books, a client security card, a client card and a daily buy/sell blotter.

The account executive desires a clearing broker-dealer with fees comparable to what others are offering; those fees are passed on to the client. The clearing charges are usually for stock trades placed or mutual fund investments. Some questions that need to be answered concern the computer system. Is there one set fee for each computer or is a fee charged for each feature? How are client accounts networked and is there a fee connected with networking? What is the required deposit to establish a relationship with a clearing broker-dealer?

For example when an introducing broker-dealer, a correspondent firm, relationship is established a minimum production of $300,000 per year in gross commissions could be required. If the correspondent firm does not maintain an average of $25,000 a month in gross commissions there could be a monthly assessment of $5,000 less the actual clearing charges.

There is an inactivity fee charged to a client if the account has no activity for eighteen months. This fee
could be $30 but does vary between the clearing firms. Automatic Customer Account Transfer, ACAT, accounts are charged $50 to the client, this is only if the portfolio is leaving the broker-dealer. Funds wired from the money market account could charge $5 to $20 depending on the clearing firm and are usually charged to the client.

Clearing firms have the capability of networking mutual funds on Level I, Level II, Level III and Level IV. Networking was created for banks, brokers/dealers and other financial service firms to keep more accurate and timely way to monitor a clients mutual fund assets.

In 1988 the National Securities Clearing Corporation introduced networking a way of providing a vehicle for funds and firms to exchange account updates. Networking provides the most efficient convenient and efficient method to maintain non-trade related client information because the system standardizes information, has abolished duplicate shareholders accounting functions, reduces discrepancies and eliminates the need for physical shares.

There are four levels of networking reporting available to met the various needs of a client. Level I networking, the mutual fund shares are in the clearing
broker-dealer's name for the beneficial owner and held on deposit at the fund. Level II networking, the mutual fund shares are in the customer's name and held on deposit at the mutual fund. Anytime a transaction is made at the mutual fund a statement from the fund will not be generated. Level III networking is an omnibus account at the clearing firm and mutual funds are purchased and sold for a client in the omnibus account with a ticket charge of at least $25 charged to the client every time a purchase, liquidation or exchange occurs. Level IV networking, the shares are in the customer's name and held on deposit at the mutual fund, when a transaction occurs a statement from the fund is generated. All transaction can be placed directly with the mutual fund Company without a transaction charge and still be networked except at Level III. All buy transactions placed directly with the mutual fund companies will fall under their guidelines pertaining to their service charges and stated in the prospectus.
Chapter Two

BRANCH OFFICE

An Independent Sales Associate opening a branch office of an established broker/dealer is relatively easy. The qualifications for opening a branch office as an account executive usually requires previous securities production of at least $150,000 a year or higher. Another qualification is that one person for the branch office must have a principal license (Series 24) with a good compliance record. Adequate capital to fund business expenses for three months should be available plus the establishment of a "reserve account", this can be $15,000 to $25,000, which cannot be used to pay any expenses.

As a branch office of a clearing broker/dealer it is easier and more cost efficient to become registered in any state that the broker/dealer is licensed. Trades are executed, confirmed and entered into a client's account and client confirmations are processed and sent out promptly. Orders for general securities can be placed directly with the traders by toll-free lines or electronically. A commission schedule put out by the clearing broker/dealer should be used as a guide for charging commissions or fees.
but there are usually no restrictions on the discounting of commissions or fees.

In order to offer maximum flexibility to clients a specially structured fee based arrangements through innovative and discretionary account programs can be offered for use by registered investment advisers. Portfolio performance reports on these accounts are provided to the account executive and client on a quarterly basis, and fees are paid to the account executive quarterly in advance and are based as a percentage of the total asset value of the client portfolio.

Some account executives are encouraged to sell the in-house products. Proprietary products or services are developed only to give quality control to the firm or to facilitate operational compatibility. Serving your clients’ best interest should be of primary importance.

There are fewer restrictions on the types of business you can conduct as a branch office. These areas are subject to special policy limitations and individual case consideration: low priced or illiquid OTC stocks, commodities trading and institutional equity accounts. It is believed that these areas of investment are
inappropriate to place retail investors in because of the high speculative nature of investment.

Most clearing broker/dealers are members of Fund/Serv and are able to provide quicker and more efficient execution of mutual fund trades by a computer link with the National Securities Clearing Corporation. Only Fund/Serv members have redemption proceeds available on settlement date. The Mutual Fund Department is also able to "network" most funds to consolidate your clients' holdings on their statements. No-load mutual funds may be purchased and held in their brokerage accounts, there is a processing charge, usually about $30 to the client, but no commission is paid to the account executive because of regulatory prohibition imposed under the terms of a no-load fund prospectus.

Branch offices have access to departments at the clearing broker/dealer to assist with research in solving problems, responding to comments and complaints. This allows the branch office to maximize its time with clients and potential clients.

Clearing broker/dealers can provide branch offices with a choice of interactive systems to access and manage the information vital information for the branch office.
which can be delivered by a two-way satellite communication link using personal computer. This system can offer real-time quote services, complete client account data access, automated order entry, trade execution reports, stock charting service and on-line research data.

The clearing broker/dealer maintains the selling agreements with the various mutual fund and annuity companies that the account executives in the branch office are permitted to make investments with for their clients.
<table>
<thead>
<tr>
<th></th>
<th>Service Description</th>
<th>Fee Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed Equities/Exchange</td>
<td>$20 per trade plus .01 cost per share</td>
<td></td>
</tr>
<tr>
<td>Listed Equities/Third Market</td>
<td>$20 per trade</td>
<td></td>
</tr>
<tr>
<td>Listed Bonds</td>
<td>$22 per trade plus $1 per bond</td>
<td></td>
</tr>
<tr>
<td>OTC Equities</td>
<td>$20 per trade</td>
<td></td>
</tr>
<tr>
<td>OTC Corporate Bonds</td>
<td>$38 per trade</td>
<td></td>
</tr>
<tr>
<td>Treasuries</td>
<td>$45 per trade</td>
<td></td>
</tr>
<tr>
<td>Zero Coupon Bonds</td>
<td>$48 per trade</td>
<td></td>
</tr>
<tr>
<td>Municipal Bonds</td>
<td>$48 per trade</td>
<td></td>
</tr>
<tr>
<td>UITs</td>
<td>$48 per trade</td>
<td></td>
</tr>
<tr>
<td>CDs</td>
<td>$15 per trade</td>
<td></td>
</tr>
<tr>
<td>Insurance/Annuities</td>
<td>$25 per trade</td>
<td></td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>$5 per fund family per account</td>
<td></td>
</tr>
<tr>
<td>Mutual Funds/Direct</td>
<td>$5 per fund family per account</td>
<td></td>
</tr>
<tr>
<td></td>
<td>executive per month</td>
<td></td>
</tr>
<tr>
<td></td>
<td>with most major</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fund families</td>
<td></td>
</tr>
<tr>
<td></td>
<td>providing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>commission data</td>
<td></td>
</tr>
<tr>
<td></td>
<td>electronically. On other funds, $5 per</td>
<td></td>
</tr>
<tr>
<td></td>
<td>trade for manual</td>
<td></td>
</tr>
<tr>
<td></td>
<td>processing of data</td>
<td></td>
</tr>
</tbody>
</table>

*This is just one example of the charges assessed by one broker/dealer to an independent sales associate opening a branch office.*
Assumptions

Several assumptions were made in preparation of a three-year proforma.

♦ Estimated gross commission - this number is based on one account executive in a financial institution with an average of $150 million in assets.

♦ Compensation - account executive receives a guarantee for the first six months of operation. After the first six months compensation is commission only at the rate of 30% of gross commissions.

♦ A sales assistant is added after the first six months.

♦ Additional account executives would be added for every $20,000 in gross commissions.

♦ Additional sales assistant would be added for every four account executives.

♦ Benefits - Employee benefits are increased based upon the assumptions made for compensation and increased six percent (6%) annually.

♦ Travel & Education - This includes continuing education fees, annual and monthly fees for the account executives and other professional fees required.

♦ Office Occupancy - The branch will occupy an office in
the financial institution and the rent will be assessed at a percentage of the gross commission.

♦ Office Operations - These costs are increased with each additional account executive. Costs for year one include computer and satellite costs for automation of the office and amortization in computer equipment purchased at the beginning of year two.
Proforma for Branch Office of Broker/Dealer

<table>
<thead>
<tr>
<th>Income</th>
<th>19xx</th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Commission</td>
<td>$94,125</td>
<td>$316,125</td>
<td>$538,125</td>
</tr>
<tr>
<td>Total Income</td>
<td>$94,125</td>
<td>$316,125</td>
<td>$538,125</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>19xx</th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissions</td>
<td>$27,000</td>
<td>$77,400</td>
<td>$127,800</td>
</tr>
<tr>
<td>Compensation</td>
<td>$6,249</td>
<td>$18,747</td>
<td>$18,747</td>
</tr>
<tr>
<td>Benefits</td>
<td>$10,250</td>
<td>$28,845</td>
<td>$43,965</td>
</tr>
<tr>
<td>Office Occupancy</td>
<td>$7,200</td>
<td>$42,825</td>
<td>$76,425</td>
</tr>
<tr>
<td>Office Operations</td>
<td>$18,350</td>
<td>$23,175</td>
<td>$30,975</td>
</tr>
<tr>
<td>Travel, Education &amp; License</td>
<td>$5,600</td>
<td>$8,375</td>
<td>$11,175</td>
</tr>
<tr>
<td>Adv. &amp; Promo</td>
<td>$1,020</td>
<td>$1,700</td>
<td>$2,500</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>$2,490</td>
<td>$4,310</td>
<td>$5,550</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$78,159</td>
<td>$205,377</td>
<td>$317,137</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Income(Loss)</th>
<th>19xx</th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Taxes</td>
<td>$15,966</td>
<td>$110,748</td>
<td>$220,988</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cum Income (Loss)</th>
<th>19xx</th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Taxes</td>
<td>$15,966</td>
<td>$126,714</td>
<td>$331,736</td>
</tr>
</tbody>
</table>
A National Association of Securities Dealers (NASD) firm must be registered as a broker/dealer with the Securities and Exchange Commission (SEC). A firm is also subject to the requirements of the securities laws and registration requirements of all states where it conducts business. State agencies require additional documentation to become licensed and each state SEC office will need to be contacted. Broker/dealers are also subject to the federal statutory provision requiring membership to the Securities Investor Protection Corporation (SIPC). Firms are exempt from this membership if mutual fund shares, variable annuities, and insurance or government securities are exclusively sold.

Firms that are members of the SIPC must also carry a blanket fidelity bond that meets the requirements for the amount, and type of coverage specified by the NASD, and must be equal to at least 120 percent of the required minimum net capital, with a minimum bond of $25,000.

All broker/dealers must report their financial condition to a designated examining authority of the NASD
by filing a FOCUS report. A FOCUS report is filed seventeen
business days after the end of each quarter unless more
frequent financial statements are required by the NASD
district office. SEC Rule 17a-5 requires an annual audit
report, prepared by an independent Certified Public
Accountant, be filed with the NASD Surveillance Department
in Washington, D.C. sixty days after the end of the fiscal
year.

SEC Rule 17f-1 also requires all firms that sell
variable annuities and/or limited partnerships to register
as direct or indirect inquirers in the Securities
Information Center's Lost and Stolen Securities Program.
Broker/dealers that sell municipal securities also need to
file an application for membership with the MSRB (Municipal
Securities Rulemaking Board).

To begin the process for a firm to be admitted to
membership of the NASD, an appropriate firm name is
selected. The NASD will not allow a prospective member to
use a name identical to that of an existing member or so
similar that it confuses or misleads people. An acceptable
firm name may be reserved for 90 days and the firm's
application should be filed within those 90 days.
Another requirement to be accepted for NASD membership is the SEC Net Capital Rule 15c3-1. The financial responsibility rules of the SEC, and NASD members must comply with this provision at all times. The types of securities products and the activities engaged in by the firm determine the minimum net capital requirements. A net capital requirement is either the greater of $50,000 or 6 2/3% (15:1) of aggregate indebtedness is required after the first year. The requirement the first year is 8:1 of aggregate indebtedness.

A firm must establish, maintain, and enforce written procedures to supervise employee's activities. The procedures must include a registered principal, an OSJ, Office of Supervisory Jurisdiction, and at least one registered representative or principal for each branch office to be responsible for supervision in that office. The main office of each firm is always designated as the OSJ and maintains supervisory jurisdiction and is responsible for all the other branch offices. These procedures must be designed to comply with all applicable securities laws, rules, and regulations, of the SEC and NASD.
Since an introducing broker/dealer doesn’t carry customer accounts an agreement with a clearing broker/dealer must be obtained. Each client will be fully disclosed to the clearing broker/dealer and the clearing broker/dealer will be responsible for preparing and mailing confirmation, statements, and other correspondence. The client will write all checks to the clearing broker/dealer.

An introducing broker/dealer is required to send all customer funds and securities to the clearing broker/dealer daily. All customer checks for the purchase of equities, mutual funds, annuities or other securities must be made payable to the various investment companies or the clearing broker/dealer. An introducing broker/dealer is not permitted to act as an agent in underwriting or to hold an inventory of securities belonging to the firm.

An introducing broker/dealer requires two-principals and a chief financial officer in addition to any registered representatives. The two-principal requirement is the minimum number of officers, partners, or directors who must be registered as principals for the firm to attain and maintain NASD membership.
Schedule C of the NASD By-Laws states "The NASD requires the president, chief executive officer, or chairman of the firm to qualify and register as a principal. This requirement is directed to the top executive of the firm who must meet all of the qualification requirements and register as a principal even if the person is not involved in the day-to-day operation of the securities business. In a partnership, at least one general partner must register as a principal." A principal must pass the General Securities Principal exam (Series 24).

A chief financial officer of a broker/dealer that conducts business in securities, transmits all customer funds and securities and doesn’t engage in any market-making activities must pass the Financial and Operations Principal Exam (Series 27).

Each firm must also designate an executive representative to represent, vote, and act for the member firm in all NASD member decisions. The designated representative will receive all compliance-related
information, materials and correspondences received from the NASD. The representative will be responsible for the distribution of this information to the individuals of the firm.

The NASD specifies that persons engaged in various aspects of securities transactions must be registered as either registered representatives, sales personnel, or as principals, generally officers of the firm engaged in the day-to-day operation of the securities business. Clerical employees are exempt from registration. Registered representatives can pass either the Investment Company/Variable Contracts Representative exam (Series 6) allowing a representative to make investments in mutual funds and annuity contracts with a life insurance license. A registered representative can pass the General Securities Exam (Series 7) allowing a representative to make investments in stocks, bonds, real estate investment trusts, options, mutual funds and annuity contracts with a life insurance license.

You may become registered as a NASD representative or principal only if employed or sponsored by a NASD member or a firm pending membership. This registration requires the
filing of Form U-4, including a fingerprint card (Appendix A). The U-4 form is the only document used to obtain data to process the registration information of an individual and each registered representative is then assigned a CRD number. The U-4 form is also used to open a qualification exam window by the NASD Central Registration Depository (CRD) to schedule an exam time at a Sylvan Learning Center. The qualification exam must take place during that 90 days the exam window is open. A majority of the states also require that the Uniform Securities Agent State Law Exam (Series 63) is passed before being able to transact business in that state. A U-4 status report is provided to the firm anytime there is a change made to a registration application.

Broker/dealer application for the NASD, SEC and state securities agency membership with initial fees is processed by the NASD CRD (Appendix A). This application assigns each firm a CRD identification number and all registered representatives, principles, and branch offices are linked to the firm’s CRD identification number. A CRD status report will be provided with notices of the applicants’ registration status, and deficiencies that will require
correction. The corrections should be made promptly because further processing will not continue until the deficiencies are corrected. Corrections can only be made by submitting an amended broker/dealer application, as letters are not acceptable. When any amendments are made to any part of the application, the first page of the broker/dealer with notarized page one must always be completed.

Once a broker/dealer application and all U-4 forms have been cleared of all deficiencies a pre-membership interview (PMI) is held with a member of the NASD district office. The individuals who must attend the PMI are those responsible for supervising the firm’s activities including the individual responsible for the firm's financial statements. These individuals must have all passed the qualified examinations for those positions. The PMI is intended for the firm to gain an understanding of the functions and operations of the NASD. This interview also allows the NASD to determine if the firm is capable of compiling with all applicable rules and regulations of membership.
Before the PMI is scheduled, the district office may request the submission of a trial balance with supporting schedules, a net capital computation and an annual audit statement. The district office may also ask for a copy of the firm's clearing agreement, written supervisory procedures, evidence of fidelity bonding coverage, registration with the Securities Information Center and any other documents the district office deem necessary to make an evaluation for membership.

Once the PMI has been completed, the district office will send the application file and the information obtained to the local NASD district committee. The district office staff, and the district committee, composed of NASD members, will make a recommendation of membership approval, membership approval with specific limitations or restrictions, or that membership is denied.

All NASD members are subject to periodic, on-site surprise examinations from the district office. The examination results are reported to the local district committee and this committee decides if rule violations
exist and if violations exist, the type of disciplinary action that is appropriate. All members are also subject to a surprise on-site examination from the SEC.

Once approval has been determined by the district committee, the firm is admitted to membership and a broker/dealer status report with a special CRD advisory message is automatically generated. The Application Coordination forwards a Certificate of Membership to the firm.
## SCHEDULE OF CLEARING CHARGES *
### INTRODUCING BROKER/DEALER

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Charge Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed Equities</td>
<td>$26 per trade plus .025 cost per share</td>
</tr>
<tr>
<td>Listed Bonds</td>
<td>$22 per trade plus $1.75 per bond</td>
</tr>
<tr>
<td>OTC Equities</td>
<td>$25 per trade plus $.015 per share</td>
</tr>
<tr>
<td>Treasuries</td>
<td>$50 per trade plus 13% of commission or sales credit</td>
</tr>
<tr>
<td>Mortgaged Backed Securities</td>
<td>$50 per trade plus 15% of commission or sales credit</td>
</tr>
<tr>
<td>UITs</td>
<td>$60 per trade plus 13% of commission or sales credit</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>$25 per trade per fund family per account per executive per month with most major Fund families Providing commission data electronically. On other funds, $5 per trade for manual processing of data.</td>
</tr>
<tr>
<td>Mutual Funds/Direct</td>
<td>$5 per fund family per account per executive per month with most major Fund families Providing commission data electronically. On other funds, $5 per trade for manual processing of data.</td>
</tr>
</tbody>
</table>

*This is just one example of the charges assessed by one broker/dealer to an independent sales associate opening a branch office.*
ASSUMPTIONS:

Several assumptions were made in preparation of a five-year proforma.

Financial Planning Income - these numbers are based on three (3) account executives being added in year two and that these individuals will produce gross commission during their first year of 250,000 and 450,000 in future years.

♦ Compensation - Employee compensation assumes that in addition to the current six (6) salaried employees, one additional employee will be added. Thereafter, salaried employees will be added for each three (3) additional account executive. Salary increases of six percent (6%) are anticipated.

♦ Benefits - Employee benefits are increased based upon the assumptions made for compensation and increased six percent (6%) annually.

♦ Professional & Outside Services - These figures are the costs of recruiting account executives.

♦ Travel & Education - This includes the continuing education fees, annual and monthly fees for the account executives and other professional fees required. These costs are increased six percent (6%) annually.
♦ Office Occupancy - The firm will occupy 2600 square feet with a rent of $5.43 per square foot. This rent will increase five percent per year.

♦ Office Operations - These costs are increased by six percent (6%) annually. Costs for year one include computer and satellite costs for automation of the office and amortization of $15,000 in computer equipment purchased at the beginning of year two.

♦ Other Expenses - these costs are increased by six percent (6%) annually
### Proforma for Introducing Broker/Dealer

<table>
<thead>
<tr>
<th>Operating Income</th>
<th>19xx</th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Inc.</td>
<td>$807</td>
<td>$807</td>
<td>$807</td>
</tr>
<tr>
<td>Fin. Plan. Comm.</td>
<td>$550,000</td>
<td>$925,000</td>
<td>$1,375,000</td>
</tr>
<tr>
<td><strong>Total Operating Income</strong></td>
<td>$550,807</td>
<td>$925,807</td>
<td>$1,375,807</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Expenses</th>
<th>19xx</th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissions</td>
<td>$192,500</td>
<td>$323,750</td>
<td>$481,250</td>
</tr>
<tr>
<td>Compensation</td>
<td>$363,000</td>
<td>$419,808</td>
<td>$480,340</td>
</tr>
<tr>
<td>Benefits</td>
<td>$11,630</td>
<td>$17,556</td>
<td>$25,380</td>
</tr>
<tr>
<td>Retirement (6%)</td>
<td>$21,780</td>
<td>$25,188</td>
<td>$28,820</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>$56,938</td>
<td>$71,958</td>
<td>$92,478</td>
</tr>
<tr>
<td>Office Occupancy</td>
<td>$134,873</td>
<td>$165,555</td>
<td>$167,414</td>
</tr>
<tr>
<td>Office Operations</td>
<td>$220,166</td>
<td>$166,836</td>
<td>$181,546</td>
</tr>
<tr>
<td>Travel, Educaiton &amp; License</td>
<td>$52,500</td>
<td>$55,650</td>
<td>$58,969</td>
</tr>
<tr>
<td>Adv. &amp; Promo</td>
<td>$70,000</td>
<td>$70,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Prof Outside Serv</td>
<td>$44,000</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>$19,200</td>
<td>$20,352</td>
<td>$21,573</td>
</tr>
<tr>
<td><strong>Total Op Expenses</strong></td>
<td>$1,186,587</td>
<td>$1,366,653</td>
<td>$1,602,770</td>
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</table>

<table>
<thead>
<tr>
<th>Net Income(Loss) Before Taxes</th>
<th>19xx</th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ (635,780)</td>
<td>$(440,846)</td>
<td>$(226,963)</td>
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</table>

<table>
<thead>
<tr>
<th>Cum Income(Loss) Before Taxes</th>
<th>19xx</th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ (635,780)</td>
<td>$(1,076,626)</td>
<td>$(1,303,589)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>19xx</td>
<td>19xx</td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>-------</td>
<td>---------------</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Inc.</td>
<td>$ 807</td>
<td>$ 807</td>
<td></td>
</tr>
<tr>
<td>Fin. Plan. Comm.</td>
<td>$1,825,000</td>
<td>$2,275,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Operating</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td>$1,825,807</td>
<td>$2,275,807</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions</td>
<td>$638,750</td>
<td>$796,250</td>
</tr>
<tr>
<td>Compensation</td>
<td>$478,303</td>
<td>$580,497</td>
</tr>
<tr>
<td>Benefits</td>
<td>$33,972</td>
<td>$43,608</td>
</tr>
<tr>
<td>Retirement (6%)</td>
<td>$29,238</td>
<td>$34,829</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>$113,260</td>
<td>$134,322</td>
</tr>
<tr>
<td>Office Occupancy</td>
<td>$169,367</td>
<td>$171,392</td>
</tr>
<tr>
<td>Office Operations</td>
<td>$196,838</td>
<td>$207,740</td>
</tr>
<tr>
<td>Travel, Education &amp; License</td>
<td>$62,528</td>
<td>$66,279</td>
</tr>
<tr>
<td>Adv. &amp; Promo</td>
<td>$35,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Prof Outside Serv</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>$22,867</td>
<td>$24,239</td>
</tr>
<tr>
<td><strong>Total Op Expenses</strong></td>
<td>$1,810,123</td>
<td>$2,124,156</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>19xx</th>
<th>19xx</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Income(Loss)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before Taxes</td>
<td>$15,684</td>
<td>$151,651</td>
</tr>
<tr>
<td><strong>Cum Income(Loss)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before Taxes</td>
<td>$(1,287,905)</td>
<td>$(1,136,254)</td>
</tr>
</tbody>
</table>
Chapter Four

ACQUISITION OF AN EXISTING BROKER/DEALER

In 1997 the Federal Reserve Board (FRB) loosened the regulations of the Glass Steagall Act encouraging financial institutions to enter into the securities business by either purchasing broker/dealers or by consolidation. Financial institutions have acquired full service broker/dealers as part of what they are gaining in distribution capabilities and they are looking for more distribution to better service and attract new customers.

Community Financial institutions are quickly becoming a thing of the past with mergers and acquisitions happening seemingly overnight. These small institutions are trying to position themselves either favorably for a buy out, or find a niche for themselves among the leaders.

Financial Institutions have been enlarging their asset base through acquisitions rather than through new sales. Acquisitions allow financial institutions to enter the securities business quickly, avoiding many of the cultural obstacles of building a brokerage unit internally.
Established brokerages can provide financial institutions with a professional, well-seasoned sales force with enough size and scale to withstand the culture.

The purchase price for a broker/dealer has increased to four times their book value during the last year because large financial institutions do not want to miss out on strengthening their relationships with their clients. Once a premium is paid to acquire a broker/dealer the financial institution will need to increase their fee revenues sooner than if they had acquired the broker/dealer at book value.

Past performances of financial services firms success can be attributed to favorable economic conditions of a stable inflation, lower interest rates and good employment conditions. Factors that will continue to influence long-term profitability will include interest rates, deposit acquisitions, lending spreads, credit quality, and the ability of companies to expand their range of lending products. Consumer and industry trends should be closely monitored for their impact on future growth opportunities.

Financial institutions can be successful at both investment product sales and investment banking by establishing a sales culture to compliment the existing
service culture. According to David M. Calkins of Ernst & Young LLP "any wholesale bank that truly desires to leverage its broker/dealer subsidiary needs to operate within a cohesive client management framework that combines people, processes and technology to increase bottom line results." (Bank Securities Journal 11).

When considering the acquisition or merger of an existing broker/dealer one thing to consider is the assets and debts of the existing companies. To be a successful merger the assets should increase while the debt structure of both organizations should decrease. This merger should also present a positive venture to the current customers and clients.

Some of the things to consider is the dollar assets under management by both companies. Additional assets are the employees, number of branches and their locations, and technology and operations of both organizations.

Items that will need to be calculated when considering a merger are the after-tax cost savings, restructuring changes, revenue enhancements, personnel, facilities and equipment. Further consideration should be given to the loan composition, deposit composition plus the weighted
average cost of capital for each company should be calculated and then the weighted average cost of capital with the companies combined. Once it has been established that the shareholders value would be increased then the merger can be justified as a good business venture.
ASSUMPTIONS:
Merger of equals with pooling of interests and tax free exchange
1.1844 Investment Center shares for each Financial Institution shares

<table>
<thead>
<tr>
<th></th>
<th>IC</th>
<th>FT</th>
<th>FG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$106 million</td>
<td>$76 million</td>
<td>$175 billion</td>
</tr>
<tr>
<td>Employees</td>
<td>34,000</td>
<td>25,000</td>
<td>54,000</td>
</tr>
<tr>
<td>Branches</td>
<td>1,150</td>
<td>427</td>
<td>1,307</td>
</tr>
<tr>
<td>Deposits</td>
<td>$70 million</td>
<td>$49 million</td>
<td>$118 million</td>
</tr>
<tr>
<td>Common Stock</td>
<td>8,718 million</td>
<td>4,817 million</td>
<td>313 million</td>
</tr>
<tr>
<td>Dividends</td>
<td>$2.58</td>
<td>$2.62</td>
<td></td>
</tr>
<tr>
<td>Beta</td>
<td>1.25</td>
<td>1.34</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>1.66</td>
<td>1.07</td>
<td></td>
</tr>
<tr>
<td>ROI</td>
<td>9.15</td>
<td>9.91</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>19.39</td>
<td>16.34</td>
<td></td>
</tr>
</tbody>
</table>

Balance Sheet
December 31, 19xx

<table>
<thead>
<tr>
<th></th>
<th>IC</th>
<th>FT</th>
<th>FG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Loans</td>
<td>$67,844</td>
<td>$42,052</td>
<td>$109,896</td>
</tr>
<tr>
<td>Securities</td>
<td>$10,792</td>
<td>$12,534</td>
<td>$23,326</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$25,746</td>
<td>$18,927</td>
<td>$44,673</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$104,382</td>
<td>$73,513</td>
<td>$177,895</td>
</tr>
<tr>
<td>Deposits</td>
<td>$69,678</td>
<td>$48,500</td>
<td>$118,178</td>
</tr>
<tr>
<td>Borrowings</td>
<td>$17,278</td>
<td>$16,609</td>
<td>$33,887</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$7,163</td>
<td>$2,592</td>
<td>$9,755</td>
</tr>
<tr>
<td>Capital Securities</td>
<td>$854</td>
<td>$995</td>
<td>$1,849</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$94,973</td>
<td>$68,696</td>
<td>$163,669</td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>$691</td>
<td>$0</td>
<td>$691</td>
</tr>
<tr>
<td>Common Equity</td>
<td>$8,718</td>
<td>$4,817</td>
<td>$13,535</td>
</tr>
<tr>
<td>Total Liabilities and Equity</td>
<td>$104,382</td>
<td>$73,513</td>
<td>$177,895</td>
</tr>
</tbody>
</table>

40
Weighted Average Cost of Capital (WACC)

Pre-merger
Investment Center (IC)

\[ K_{rf} = 5.08 \text{ - Risk Free Rate of Return} \]
\[ K_{m} = 16 \text{ - Expected Rate of Return on Market Portfolio} \]
\[ B = 0 \]
\[ K_{s} = 8,718 \text{ million} \]
\[ K_{d} = \text{Debt (Interest/Total Liabilities (1-Tax Rate))} \]
\[ T = 38.9\% \text{ Tax Rate} \]

Common Stock
\[ K_{s} = K_{rf} + B(K_{m} - K_{rf}) \]
\[ = 5.08 + 1.25(16-5.08) \]
\[ = 0.1873 \]

Debt
\[ K_{d} = 1134/94973(1-.389) \]
\[ = 0.73\% \]

Financial Institution (FI)

\[ K_{rf} = 5.08 \text{ - Risk Free Rate of Return} \]
\[ K_{m} = 16 \text{ - Expected Rate of Return on Market Portfolio} \]
\[ B = 1.34 \text{ - Beta} \]
\[ K_{s} = \text{Common Stock} \]
\[ K_{d} = \text{Debt (Interest/Total Liabilities (1-Tax Rate))} \]
\[ T = 38\% \text{ Tax Rate} \]
Common Stock

\[ K_s = K_{rf} + B(K_m - K_{rf}) \]
\[ = 5.08 + 1.34(16 - 5.08) \]
\[ = 19.71 \%

Debt

\[ K_d = \frac{179}{68696}(1 - 0.38) \]
\[ = 0.74\% \]

Post-merger Financial Group (FG)

\[ K_{rf} = 5.08 - \text{Risk Free Rate of Return} \]
\[ K_m = 16 - \text{Expected Rate of Return on Market Portfolio} \]

<table>
<thead>
<tr>
<th>Assets</th>
<th>Weight</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC</td>
<td>104,382</td>
<td>59%</td>
</tr>
<tr>
<td>FI</td>
<td>73,513</td>
<td>41%</td>
</tr>
<tr>
<td>FG</td>
<td>177,895</td>
<td>100%</td>
</tr>
</tbody>
</table>

Common Stock

\[ K_s = K_{rf} + B(K_m - K_{rf}) \]
\[ = 5.08 + 1.34(16 - 5.08) \]
\[ = 19.28\% \]

Debt

\[ K_d = \frac{2313}{163669}(1 - 0.389) \]
\[ = 0.86\% \]
Market Value of Stock

Investment Center (IC)

\[
\begin{align*}
MV &= \text{Market value of one share of equity} \\
D_1 &= \text{Expected dividend per share next period} \\
K_s &= \text{Required Rate of Return} \\
g &= \text{Growth Rate of dividend per share} \\
D_0 &= \text{Dividend in current year} \\
g &= (1-\text{payout ratio}) \times \text{Return on Equity} \\
\text{Payout} &= 36\% \\
\text{ROE} &= 17.57\% \\
D_0 &= \$0.98 \\
D_1 &= D_0 (1+g) \\
g &= (1-0.36) \times 0.1757 \\
&= 11.24\% \\
D_1 &= D_0 (1+g) \\
&= 0.98 \times (1+0.1124) \\
&= 1.08 \\
MV &= \frac{D_1}{K_s - g} \\
&= \frac{1.08}{0.1764 - 0.1124} \\
&= \$16.67 \text{ per share}
\end{align*}
\]
Financial Institution (FI)

MV  = Market value of one share of equity
D1  = Expected dividend per share next period
Ks  = Required Rate of Return
g   = Growth Rate of dividend per share
Do  = dividend in current year

\[ g = (1 - \text{payout ratio}) \times \text{Return on Equity} \]

\[ \text{Payout} = 46\% \]
\[ \text{ROE} = 16.44\% \]
\[ Do = \$1.16 \]
\[ D1 = Do(1+g) \]

\[ g = (1-0.46) \times 0.1644 \]
\[ = 8.88\% \]

\[ D1 = Do(1+g) \]
\[ = 1.16 \times (1+0.0888) \]
\[ = 1.26 \]

\[ MV = \frac{D1}{(Ks-g)} \]
\[ = \frac{1.26}{(0.1928-0.0888)} \]
\[ = \$12.12 \text{ per share} \]
Financial Group (FG)

MV  = Market value of one share of equity
D1  = Expected dividend per share next period
Ks  = Required Rate of Return
g  = Growth Rate of dividend per share
Do  = dividend in current year

Assume:

\[ g = 12\% \]
\[ D1 = Do(1+g) \]
\[ = 1.1 \times (1+0.12) \]
\[ = 1.23 \]
\[ MV = D1/(Ks-g) \]
\[ = 1.23/(0.1764-.12) \]
\[ = 21.81 \text{ per share} \]

Market Value Pre-merger

Investment Center Common Shares - 590 million shares
at $16.67 per share

Financial Institution Common Shares - 264 million shares
at $12.12 per share

\[ MV_{ic} + MV_{fi} = (590 \times 16.67) + (264 \times 12.21) \]
\[ = 9,835 + 3,223 \]
\[ = 13,058 \text{ million} \]

Share-for-share merger

1 FI  = 1.1844 IC share (exchange ratio)
FI shares at merger announcement = 264 million
\[ = 264 \times 1.1844 \]
\[ = 313 \text{ million shares} \]
Market Value Post-merger

\[ = (590_{IC} + 313_{FI}) \times 21.80 \]
\[ = 19,685 \text{ million Financial Group shares} \]

\[ MV_{FG} > MV_{IC} + MV_{FI} \]

\[ = 19,685 > 13,058 \]
Shareholders value would increase for both firms with the merger

## BALANCE SHEET
Projected

<table>
<thead>
<tr>
<th>Assets</th>
<th>IC</th>
<th>FI</th>
<th>FG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$97,167</td>
<td>$71,450</td>
<td>$168,617</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>$1,352</td>
<td>$1,451</td>
<td>$2,803</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$16,301</td>
<td>$6,641</td>
<td>$22,942</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$114,820</td>
<td>$79,542</td>
<td>$194,362</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dep &amp; Int.</td>
<td>$71,000</td>
<td>$48,000</td>
<td>$119,000</td>
</tr>
<tr>
<td>Cur. Liabilities</td>
<td>$9,158</td>
<td>$15,888</td>
<td>$25,046</td>
</tr>
<tr>
<td>LT Liabilities</td>
<td>$15,500</td>
<td>$5,810</td>
<td>$21,310</td>
</tr>
<tr>
<td>Total Liab</td>
<td>$95,658</td>
<td>$69,698</td>
<td>$165,356</td>
</tr>
<tr>
<td>Stockholders Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred Stock</td>
<td>$691</td>
<td>$</td>
<td>$691</td>
</tr>
<tr>
<td>Common Stock</td>
<td>$3,290</td>
<td>$1,425</td>
<td>$6,807</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>$5,600</td>
<td>$3,497</td>
<td>$7,005</td>
</tr>
<tr>
<td>Total Equity</td>
<td>$9,581</td>
<td>$4,922</td>
<td>$14,503</td>
</tr>
<tr>
<td>Total Liabilities and Equity</td>
<td>$114,820</td>
<td>$79,542</td>
<td>$194,362</td>
</tr>
</tbody>
</table>
Financial institutions have many benefits on their side to become the leading distributors of investment products. A few of these benefits include large, untapped client bases that have many branch locations with community ties. Today they are trying to expand into the insurance and retirement areas. These institutions are heading toward a time when they will offer every financial product available to the public by offering one stop shopping. The United States Supreme Court has paved the way for one stop shopping in the case of Barnett Bank vs. Nelson, the court held that national banks may sell insurance from towns of 5,000 people or less, even when state law prevents statement-chartered banks from doing so. The one stop concept maybe a concept that doesn't materialize because consumers don't want their financial institution to market and cross-sell to them.

According to an article in Bank Investment Marketing magazine, Snyergistics Research, a market research firm in Atlanta, recently asked 1,011 people whether they thought a single provider was a good idea. Forty-four percent either
rejected the idea or were ambivalent about it. When asked why, most said they could find better pricing, rates, and services by shopping around, but they had other misgivings as well. This same article stated that forty-one percent were moderate to very interested in a single provider, while the remaining fifteen percent currently do all their financial business with one company (pg 28).

This same article also referred to a market research conducted by the Spectrem Group of San Francisco. This group polled 2,000 households with an annual income of $100,000 or more or a net worth of at least $500,000, fifty-two percent of which said they would prefer to do all their financial business with one institution, which was down seven percent from the previous year. About sixty percent of these households said they already have a "primary" provider for their investment and savings business, and the top two providers control about eighty percent of these household's assets.

A survey conducted among twenty-five credit unions in the Minneapolis-St. Paul area with a seventy-percent response provided the following information. Of those credit unions responding forty-four percent offered full
service brokerages services to their members while fifty-six percent didn’t offer brokerage services to their members. Of the forty-four percent of the credit unions offering brokerage services the brokerage services were a Branch Office of a broker/dealer and only one credit union was their own Introducing broker/dealer.

Insurance products and services were offered to ninety-four percent of the credit union members. The members, asset size, and membership size in that order determined the criteria used in deciding which products were offered to members of the credit union. Sixty-three percent of the members were in favor of one stop shopping for all their financial needs, but thirty-one percent didn’t know how their members felt.

Consolidated statements for all financial transactions were offered to eighty-eight percent of the members of the area credit unions, but only thirty-one percent had access to their accounts via the Internet.

In a world where personal information is developed, traded, and employed by large corporations for profit consumers don’t want organizations to know all their finances. Financial institutions are going to have to show
their customers the benefits of doing everything with them. One way to show the benefit would be to offer discounts for packaged services.

Financial service firms have shown a respectable performance despite the competition and much of the success can be attributed to a favorable economic situation. This is an indication that financial institution can provide an investment center for financial planning to their clients. The decision of whether to open a branch office, become an introducing broker/dealer, or undertake the acquisition of an existing office should only be made after a careful study. A study of the economic conditions of the potential clients, the locations of the investment centers, the capital to be invested in starting an investment center venture, and the experience in the financial planning industry are just some of the things to be aware of in making this decision.

A successful investment service must be translated into the opportunities and constraints relevant to their own business. An investment center is about finance and
economics and the ability to adapt rapidly to changes in the supply and demand factors that drive the business. The ability to understand and act in such an environment is the price of entry.
## Appendix A

### Client New Account Form

### New Account Form

<table>
<thead>
<tr>
<th>Field</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Raymunda Jain</td>
</tr>
<tr>
<td>Address</td>
<td>123 Main St, Anytown, USA</td>
</tr>
<tr>
<td>Phone</td>
<td>(555) 123-4567</td>
</tr>
<tr>
<td>Email</td>
<td><a href="mailto:raymond@jain.com">raymond@jain.com</a></td>
</tr>
<tr>
<td>Date of Birth</td>
<td>April 1, 1990</td>
</tr>
<tr>
<td>Social Security Number</td>
<td>123-45-6789</td>
</tr>
<tr>
<td>Occupation</td>
<td>Business Owner</td>
</tr>
<tr>
<td>Education</td>
<td>Bachelor's Degree</td>
</tr>
<tr>
<td>Income</td>
<td>$120,000</td>
</tr>
<tr>
<td>Net Worth</td>
<td>$200,000</td>
</tr>
<tr>
<td>Liquid Assets</td>
<td>$100,000</td>
</tr>
<tr>
<td>Non-Liquid Assets</td>
<td>$300,000</td>
</tr>
<tr>
<td>Investment Experience</td>
<td>Limited Experience</td>
</tr>
<tr>
<td>Investment Style</td>
<td>Equity</td>
</tr>
<tr>
<td>Investment Horizon</td>
<td>Over 10 years</td>
</tr>
<tr>
<td>Name of Employer</td>
<td>Raymond Jain &amp; Associates</td>
</tr>
</tbody>
</table>

### Account Information

- **Account Type:** Client New Account Form
- **Account Classification:** Individual
- **Investment Style:** Equity
- **Investment Horizon:** Over 10 years
- **Name of Employer:** Raymond Jain & Associates

### Legal Name

- Client Name: Raymunda Jain
- Raymond Jain
- Raymond Jain & Associates, Inc.
- Raymond Jain & Associates, Inc.
- Raymond Jain & Associates, Inc.
- Raymond Jain & Associates, Inc.
- Raymond Jain & Associates, Inc.

### Additional Information

- **Address:** 123 Main St, Anytown, USA
- **Phone:** (555) 123-4567
- **Email:** raymond@jain.com
- **Date of Birth:** April 1, 1990
- **Social Security Number:** 123-45-6789
- **Occupation:** Business Owner
- **Education:** Bachelor's Degree
- **Income:** $120,000
- **Net Worth:** $200,000
- **Liquid Assets:** $100,000
- **Non-Liquid Assets:** $300,000
- **Investment Experience:** Limited Experience
- **Investment Style:** Equity
- **Investment Horizon:** Over 10 years
- **Name of Employer:** Raymond Jain & Associates, Inc.
Client Monthly Statement

Investment Portfolio Report for March 31 to April 28, 1995

Account ID: 12345675
Tax ID: 111-11-1111

Mr. John O. Smith
1234 Pleasant Drive
Largo, Florida 34644-4916

Account Value

<table>
<thead>
<tr>
<th>Assets Listed in Your Portfolio</th>
<th>Amount of Portfolio</th>
<th>Percent of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash/Credit Card</td>
<td>$12,013.00</td>
<td>0.8%</td>
</tr>
<tr>
<td>Raymond James Bank, FSB</td>
<td>5.00</td>
<td>0.4%</td>
</tr>
<tr>
<td>Money Market Fund</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Stocks/Options/Closed-End Funds</td>
<td>1,840.75</td>
<td>14.9%</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>7,817,137.70</td>
<td>72.8%</td>
</tr>
<tr>
<td>Unit Investment Trusts</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Municipal Bonds</td>
<td>15,148.00</td>
<td>1.3%</td>
</tr>
<tr>
<td>Government/MS&amp;I back securities</td>
<td>1,551.00</td>
<td>0.1%</td>
</tr>
<tr>
<td>Asset Related Securities</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Insurances/Medical</td>
<td>4,781,789.70</td>
<td>44.1%</td>
</tr>
<tr>
<td>CD's</td>
<td>50,000.00</td>
<td>4.1%</td>
</tr>
<tr>
<td>Other</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Pledged Assets</td>
<td>$382,269.29</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Income & Expense Summary

<table>
<thead>
<tr>
<th>Income/Receipts</th>
<th>This Year</th>
<th>This Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends - taxable</td>
<td>$249,764.00</td>
<td>$12,786.02</td>
</tr>
<tr>
<td>Dividends - non-taxable</td>
<td>362.00</td>
<td></td>
</tr>
<tr>
<td>Interest - taxable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest - tax exempt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest - credit interest program</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Interest - principal interest program</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Income - capital gains</td>
<td>179.02</td>
<td>1.37</td>
</tr>
<tr>
<td>Income distribution</td>
<td>3,181.20</td>
<td></td>
</tr>
<tr>
<td>Total Income &amp; Receipts</td>
<td>$12,853.69</td>
<td></td>
</tr>
</tbody>
</table>

Liabilities:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount of Liability</th>
<th>Percent of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ready Access Balance (HSB)</td>
<td>$10,000.00</td>
<td>0.8%</td>
</tr>
<tr>
<td>Short Sales</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$10,000.00</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

Net Value of Your Portfolio:

<table>
<thead>
<tr>
<th>Net Value of Your Portfolio</th>
<th>Before Statement</th>
<th>After Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>$382,269.29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$274,523.98</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If you have any questions, please contact your Account Executive or call our Client Services Department at 1-800-647-SEIV.

Your statement is printed on both sides
In accordance with the relevant business practice.
### YOUR PORTFOLIO

#### CASH/CREDIT INTEREST PROGRAM

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimated Value</th>
<th>Estimated Current Yield</th>
<th>Annual Estimated Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value for Cash/Credit Interest Program</td>
<td>$53.63</td>
<td></td>
<td>$0.00</td>
</tr>
</tbody>
</table>

#### RAYMOND JAMES BANK, FSB

Unless otherwise specified, products purchased from or held at Raymond James & Associates are not insured by the FDIC, are not deposits or other obligations of Raymond James Bank, FSB, are not guaranteed by Raymond James Bank and are subject to investment risk, including possible loss of the principal invested.

#### MONEY MARKET FUNDS

<table>
<thead>
<tr>
<th>Shares</th>
<th>Description</th>
<th>Symbol</th>
<th>Estimated Price</th>
<th>Estimated Value</th>
<th>Current Yield</th>
<th>Annual Estimated Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$59,007.95</td>
<td>Money Market Cash Trust</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total value for Money Market Funds

$59,007.95

$1,099.37

#### STOCKS/OPTIONS/CLOSED-END FUNDS

<table>
<thead>
<tr>
<th>Shares</th>
<th>Description</th>
<th>Symbol</th>
<th>Estimated Price</th>
<th>Estimated Value</th>
<th>Est. Div. per Share (Annual)</th>
<th>Annual Estimated Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$17,340.78</td>
<td>Term Trust - 1998</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$18,149.25</td>
<td>Term Trust - 1999</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total value for priced Stocks/Options/Closed-End Funds

$17,340.78

$1,074.04
## YOUR PORTFOLIO

**Account ID:** 12345678  |  **Date:** 04/28/95  |  **Page:** 3

### MUTUAL FUNDS

<table>
<thead>
<tr>
<th>Shares</th>
<th>Description</th>
<th>Shares</th>
<th>Cost Basis</th>
<th>Shares</th>
<th>Market Value</th>
<th>Shares</th>
<th>Allocated</th>
<th>Shares</th>
<th>Market Value</th>
<th>Shares</th>
<th>Allocated</th>
<th>Shares</th>
<th>Market Value</th>
<th>Shares</th>
<th>Allocated</th>
<th>Shares</th>
<th>Market Value</th>
<th>Shares</th>
<th>Allocated</th>
<th>Shares</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,912</td>
<td>TAX EXEMPT</td>
<td>4,912</td>
<td>2,209.62</td>
<td>14.411</td>
<td>1,064.33</td>
<td>14.411</td>
<td>1,064.33</td>
<td>14.411</td>
<td>1,064.33</td>
<td>14.411</td>
<td>1,064.33</td>
<td>14.411</td>
<td>1,064.33</td>
<td>14.411</td>
<td>1,064.33</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total value for priced Mutual Funds:** $41,221.17

### MUNICIPAL BONDS

<table>
<thead>
<tr>
<th>Face Value</th>
<th>Description</th>
<th>Cost Basis</th>
<th>Market Value</th>
<th>Interest Rate</th>
<th>Maturity Date</th>
<th>Projected Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>20,000</td>
<td>SUPPLY SYSTEM REFUNDING</td>
<td>19,800</td>
<td>20,448.80</td>
<td>101.50</td>
<td>09/01/02</td>
<td>$1,140.00</td>
</tr>
<tr>
<td>100,000</td>
<td></td>
<td>100,000</td>
<td>100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total value for priced Municipal Bonds:** $20,448.80

### ASSET BACKED SECURITIES

<table>
<thead>
<tr>
<th>Face Value</th>
<th>Description</th>
<th>Cost Basis</th>
<th>Market Value</th>
<th>Interest Rate</th>
<th>Maturity Date</th>
<th>Projected Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,000</td>
<td>ASSOCIATION POOL 14</td>
<td>25,000</td>
<td>25,551.35</td>
<td>123.45</td>
<td>12/15/95</td>
<td>$1,249.46</td>
</tr>
<tr>
<td>100,000</td>
<td></td>
<td>100,000</td>
<td>100,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total value for priced Asset Backed Securities:** $25,551.35
YOUR PORTFOLIO

INSURANCE/ANNUITIES

Insurance and annuity policies are not held by Raymond James & Associates, Inc. Contract statistics and values are provided for informational purposes only, and may not reflect all of your policies. The valuation amounts and some allocations, supplied by the issuing insurance company, reflect values and withdrawals as of the stated valuation date, but may not reflect any applicable surrender penalties or assets valued differently. Valued amounts are taken directly from the contract or by the insurance companies. All policies have restrictions, withdrawal charges, and other charges. The registration of your annuity does not change the ownership of your annuity. Values may be in both qualified or non-qualified plans registered with the insurance company. The amount invested shown is the sum of all contributions made, but does not reflect any withdrawals that may have been taken.

<table>
<thead>
<tr>
<th>Annuity/Description</th>
<th>Amount Invested</th>
<th>Policy #/Issue Date</th>
<th>Unit Price</th>
<th>Number of Units</th>
<th>Estimated Value</th>
<th>Estimated Valuation Date</th>
<th>Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CERTIFICATES OF DEPOSIT

<table>
<thead>
<tr>
<th>Face Value</th>
<th>Description</th>
<th>CUSIP ID</th>
<th>Price</th>
<th>Estimated Interest</th>
<th>Estimated Value</th>
<th>Estimated Rate</th>
<th>Estimated Date</th>
<th>Annual Income</th>
<th>Call</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TOTAL VALUE FOR PRICED PORTFOLIO & PROJECTED INCOME: $382,339.29

TOTAL VALUE FOR PRICED PORTFOLIO & PROJECTED INCOME: $11,448.11
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Income/Deposits</th>
<th>Sales/Writes</th>
<th>Cash</th>
<th>Activity</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 03</td>
<td>Transfer to Honey Market</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td>29,010.50</td>
</tr>
<tr>
<td>Apr 18</td>
<td>Dividend of 9900 shares for FUND CLASS A</td>
<td>180.00</td>
<td></td>
<td></td>
<td></td>
<td>29,672.95</td>
</tr>
<tr>
<td>Apr 26</td>
<td>Dividend of 1000 shares for AMERICAN ADJUSTABLE RATE</td>
<td>72.50</td>
<td></td>
<td></td>
<td></td>
<td>29,672.95</td>
</tr>
<tr>
<td>Apr 28</td>
<td>Activity on Honey Market</td>
<td>97.20</td>
<td></td>
<td></td>
<td></td>
<td>29,672.95</td>
</tr>
</tbody>
</table>

**NET ACTIVITY/ENDING BALANCES**

- $179.20
- $0.00
- $179.02
- $53.01
- $1,061.95
- $29,672.95
Dear Client:

This is to confirm that the following transaction was completed in your account on a solicited basis. Thank you for the opportunity to service your investment account. We encourage you to review the information on this confirmation. If you have any questions, please contact your Account Executive, DENNIS ZANK at (813) 573-3800 or our Client Services Department at 1-800-647-SERV.

**STOCK TRANSACTION SUMMARY**

**SOLD:** 100 shares of AMERICAN TELEPHONE & Telegraph, symbol T, at $58.25 per share

<table>
<thead>
<tr>
<th>Trade Amount</th>
<th>Commission</th>
<th>Handling</th>
<th>Net Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,825.00</td>
<td>$95.00</td>
<td>$3.00</td>
<td>$5,726.80</td>
</tr>
</tbody>
</table>

Most clients choose to have our firm hold their securities for insured safekeeping and to facilitate transfer upon sale. If you have possession of this security, please deliver it to us by December 17, 1993. Unless you have advised us otherwise, we will follow the instructions set upon your account to process the proceeds of this transaction.

This transaction was executed on an agency basis on the New York Stock Exchange. The industry standard identification number (CUSIP) assigned to this security is 030177109. Other information regarding the execution of this transaction, including the date and time of the transaction, will be furnished upon written request.

We sincerely hope that you are pleased with the quality of the investment and support services which you are receiving. If you know of other investors who could benefit from our services, please refer them to your Account Executive.

Thank you for doing business with us.
Dear Client:

This is to confirm that the following transaction was completed in your account on a solicited basis. Thank you for the opportunity to service your investment account. We encourage you to review the information on this confirmation. If you have a question, please contact your Account Executive, DENNIS ZANK at (813) 573-3800 or our Client Services Department at 1-800-647-SERV.

**STOCK TRANSACTION SUMMARY**

**BOUGHT:** 100 shares of AMERICAN TELEPHONE & Telegraph, symbol T, at $56 ¾ per share

<table>
<thead>
<tr>
<th>Trade Amount</th>
<th>Commission</th>
<th>Handling</th>
<th>Net Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,675.00</td>
<td>$85.00</td>
<td>$3.00</td>
<td>$5,763.00</td>
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Most clients choose to pay for transactions automatically with funds held in either their Heritage Cash Trust, Heritage Cash Trust Municipal or the broker/dealer Credit Interest Program. If your account does not currently have sufficient funds to pay for this transaction, or you pay for transactions individually, please forward payment to reach us by December 17, 1993. For proper credit, please write your account ID on the front of any checks sent to us and make them payable to broker/dealer. Unless you have advised us otherwise, we will follow the instructions set up on your account to process this transaction.

This transaction was executed on an agency basis on the New York Stock Exchange. The industry standard identification number (CUSIP) assigned to this security is 030177109. The standard trading symbol for this stock is T and the primary market is the New York Stock Exchange. While some newspapers may refer to the standard trading symbol, your local newspaper may use varying abbreviations for securities listings. Other information regarding the execution of this transaction, including the date and time of the transaction, will be furnished upon written request.

This trade has been executed for you at a preferred commission rate at your Account Executive's instruction.

This stock currently pays a dividend which is estimated at $1.32 per share annually. These dividends are generally subject to federal, state and/or local taxes. If we hold your securities in street name, we will report these dividends to you at year end on Form 1099-DIV for use in preparing your tax return.

We sincerely hope that you are pleased with the quality of the investment and support services which you are receiving. If you know of other investors who could benefit from our services, please refer them to your Account Executive.

Thank you for doing business with us,
**Broker/Dealer Application**

**UNIFORM APPLICATION FOR BROKER-DEALER REGISTRATION**

**APPLICATION AMENDMENT**

1. Exact name, principal business address, mailing address, if different, and telephone number of applicant:
   - Full name of applicant or entity: __________
   - IRS Employer No.: __________
   - DBA or trade name: __________
   - Business Telephone Number: __________
   - Home and Office: __________
   - Contact Telephone: __________
   - State: __________
   - County: __________

**EXECUTION:**

For the purposes of complying with the laws of the States designated in Item 2 relating to either the offer or sale of securities or commodities, the undersigned and applicant hereby certify that the applicant is in compliance with applicable state survey bonding requirements and procedures against the enforcement of any or all such laws or regulations, or the blindness in such offenes for the applicant in said States, upon whom may be served notice, process, or pleading in any action, proceeding, or enforcement against the applicant against or in connection with the offer or sale of securities or commodities, or out of the violation or alleged violation of the laws of the States, and the applicant hereby consents to any such action or proceeding against the applicant to be commenced in any court of competent jurisdiction and proper venue within said States by service of process upon said applicant with the same effect as if applicant were a resident of said States and had lawfully been served with process in said States. The applicant consents that service of any civil action brought by or notice of any proceeding before the Securities and Exchange Commission, or any self-regulatory organization in connection with the applicant's broker-dealer activities, or at any application for a protective order filed by the Securities Investor Protection Corporation may be given by registered or certified mail or confirmed telegram to the applicant's contact person at the main address, or mailing address if different, given in Items 16 and 17.

The undersigned, being first duly sworn, declares and says that he/she has executed this form on behalf of, and with the authority of, said application. The undersigned and applicant represent that the information and statements contained herein, including Exhibits attached hereto, and other information filed herewith, all of which are made a part hereof, are correct, true, and complete. The undersigned and applicant further represent that to the extent any information previously submitted is not amended such information is current, accurate and complete.

Form (File No.): __________

Signature: __________________________

Subscribed and sworn before me this ______ day of __________, ______

Notary Public

**IFAM/SD/05/19**

**Name of Applicant**

**Notary Public**

This page must always be completed in full with original, manual signatures and notarization. To amend, circle items being amended. Affix notary stamp or seal where applicable.

**DO NOT WRITE BELOW THIS LINE - FOR OFFICIAL USE ONLY**
FORM BD

Page 2

Applicant Name: ____________________________

Date: ____________________  IRS CRD No.: __________

2. Indicate in the boxes below each jurisdiction in which the applicant is registered or wishes to register as a broker-dealer. If any registration, license, or membership fees is a nominal amount, explain fully on Schedule D.

|--------------|----------|---------|---------|-------|----------|---------|------|--------|----------|----------|------|----------|----------------|----------|-------------|---------|---------|----------|-------|----------------|-----------|-----------|-----------|------------|-----------|-------|----------|-----------|----------|-----------|-----------|------------|----------|-----------|----------|----------|---------|----------|-----------|-----------|----------|

3. Indicate date and place applicant obtained its legal status (i.e., place of incorporation, where partnership agreement was filed, or where applicant entity was formed).

Date of formation: __________________________

Place of formation: ________________________

Applicant’s fiscal year ends: ________________________

Schedule A and, if applicable, Schedule B must be completed as part of initial applications. Amendments to these Schedules must be provided on Schedule D.

4. If applicant is a sole proprietor, state full residence address and Social Security Number.

Social Security Number: ________________________

5. Is applicant at the time of this filing seeking to succeed to the business of a currently registered broker-dealer? YES NO

If "yes," answer the questions below and describe the details of the succession on Schedule D.

A. Date of Succession: ________________________

B. Name of Predecessor: ________________________

C. Name of Postdecessor: ________________________

D. IRS Emp. Ident. No.: ________________________

E. IRS CRD No.: ________________________

F. SEC file no.: ________________________

6. Does any person not named in item 1 or Schedules A, B, or C, directly or indirectly:

A. Control the management or policies of applicant through agreement or otherwise? Yes No

B. Wholly or partially finance the business of applicant in any manner other than by: (1) a public offering of securities; (2) credit extended in the ordinary course of business by suppliers, banks and others; or a substitute subordination agreement, as defined in Rule 15c3-3 under the Securities Exchange Act of 1934 (17 CFR 240.15c3-3)(ii) "yes," state on Schedule D the exact name of each person and describe the agreement or arrangement through which such financing is made available, including the amount thereof: Yes No
### 7A
(1) In the past ten years, has the applicant or a control affiliate been convicted of or pleaded guilty or nolo contendere ("no contest") in a domestic, foreign or military court for:

- [ ] any felony

(If a misdemeanor involving investments or an investment-related business, or any fraud, false statements or omissions, theft, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses)

(2) In the past ten years has the applicant or a control affiliate been charged with any felony or charged with a misdemeanor specified in question 7A(1) in a domestic, foreign or military court?

### 7B
Has any domestic or foreign court:

(1) In the past ten years, enjoined the applicant or a control affiliate in connection with any investment-related activity?

(2) Ever found that the applicant or a control affiliate was involved in a violation of investment-related statute(s) or regulation(s) or:

- [ ] ever dismissed, pursuant to a settlement agreement, an investment-related civil action brought against the applicant or a control affiliate by a state or foreign financial regulatory authority?

### 7C
Has the U.S. Securities and Exchange Commission or the Commodity Futures Trading Commission ever:

(1) Found the applicant or a control affiliate to have made a false statement or omission?

(2) Found the applicant or a control affiliate to have been involved in a violation of its regulations or statutes?

(3) Found the applicant or a control affiliate to have been a cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted?

(4) Issued an order against the applicant or a control affiliate in connection with investment-related activity?

(5) Imposed a civil money penalty on the applicant or a control affiliate, or ordered the applicant or a control affiliate to cease and desist from any activity?

### 7D
Has any other federal regulatory agency or any state regulatory agency or foreign financial regulatory authority (Note: This introduction to the question pertains to items 7D (1-5) only):

(1) Ever found the applicant or a control affiliate to have made a false statement or omission or been dishonest, unfair or unethical?

(2) Ever found the applicant or a control affiliate to have been involved in a violation of investment-related regulation(s) or statute(s) or:

(3) Ever found the applicant or a control affiliate to have been a cause of an investment-related business having its authorization to do business denied, suspended, revoked, or restricted?

(4) In the past ten years, entered an order against the applicant or a control affiliate in connection with investment-related activity?

(5) Ever denied, suspended, or revoked the applicant's or a control affiliate's registration or license or otherwise, by order, prevented it from associating with an investment-related business or restricted its activities?

(6) Has the applicant's or a control affiliate's authorization to act as an attorney, accountant, or federal contractor ever been revoked or suspended?
<table>
<thead>
<tr>
<th>FORM BD</th>
<th>Applicant Name:</th>
<th>OFFICIAL USE</th>
<th>FIRM CRD No.:</th>
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<td>PAGE 4</td>
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</table>

### 7A
Has any self-regulatory organization or securities exchange ever:

1. 
   - [ ] found the applicant or a control affiliate to have made a false statement or omission?

   [ ]

2. 
   - [ ] found the applicant or a control affiliate to have been involved in a violation of its rules (other than a violation designated as a "minor rule violation") under a plan approved by the U.S. Securities and Exchange Commission?

   [ ]

3. 
   - [ ] found the applicant or a control affiliate to have been the cause of an investment-related business having its registration to do business denied, suspended, revoked or restricted?

   [ ]

4. 
   - [ ] disciplined the applicant or a control affiliate by expelling or suspending it from membership, barring or suspending its association with other members, or otherwise restricting its activities?

   [ ]

### 7B
Is the applicant or a control affiliate now the subject of any civil proceeding that could result in a "yes" answer to any part of 7A?

[ ]

### 7C
Is the applicant or a control affiliate now the subject of any regulatory proceeding that could result in a "yes" answer to any part of 7C, D, or E?

[ ]

### 8
In the past ten years has the applicant or a control affiliate of the applicant been a broker or a control affiliate of a securities firm that:

1. 
   - [ ] had been the subject of a bankruptcy petition?

   [ ]

2. 
   - [ ] has had a trustee appointed or a direct payment procedure initiated under the Securities Investor Protection Act?

   [ ]

### 8A
A. 
   - [ ] have any arrangement with any other person, firm or organization under which:
     1. 
        - [ ] any of the accounts or records of applicant are kept or maintained by such person, firm, or organization?

        [ ]

     2. 
        - [ ] any portion of or any of its accounts or records are held or maintained by such person, firm, or organization under a plan to be maintained at an out-of-state location as defined in paragraph (e) of Rule 15c3-3 under the Securities Exchange Act of 1934, 17CFR 240.15c3-3?

        [ ]

B. 
   - [ ] have any arrangements with any other broker or dealer under which applicant relies or introduces customers to such other broker or dealer?

   [ ]

### 9
Directly or indirectly, does applicant control, is applicant controlled by, or is applicant under common control with any partnership, corporation, or other organization engaged in the securities or investment advisory business?

[ ]

### Instructions
If the answer to any subsection of Item 8 is "yes," furnish full details on Schedule C as to each such arrangement, including the full name and principal business address of the other person, firm, or organization, and a summary of each such arrangement. Clearly label the subsection of Item 8 to which the details of each such arrangement are provided.

Copyright © 1992-1999, NRS Systems, Inc. (Partners of Software Group)
**Form U-4**

**Uniform Application for Securities Industry Registration or Transfer**

This form is to be used by all firms to make registration or temporary registration filings.

**Portion Must Be Completed for All Partial Transfer or Registration Filings:**

- Date of birth
- Address
- Home telephone number
- Business telephone number
- Identification numbers

**Nature of Application/Registration Requested:***

- Securities
- Options
- Municipal Securities
- Municipal Revenue Bonds
- Underwriting
- Trading
- Municipal Financing
- Municipal Bond
- Municipal Revenue Bond
- Municipal Revenue
- Underwriting
- Trading
- Municipal Financing
- Municipal Bond
- Municipal Revenue Bond
- Municipal Revenue

**Signature:**

- Type or Print Name of Applicant

© Copyright 1992 by NASD.
FORM U-4

UNIFORM APPLICATION FOR SECURITIES INDUSTRY REGISTRATION OR TRANSFER

If there is an amendment to this page, complete only Items 12, 14 and the item being amended.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FIELD</th>
<th>INFORMATION</th>
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<td>FIRST NAME</td>
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<td>3.</td>
<td>OTHER NAMES SHOWN BY</td>
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<td>4.</td>
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<td>DAY</td>
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<td>5.</td>
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RESIDENTIAL HISTORY

Give all addresses for the past five years, starting with current address:

<table>
<thead>
<tr>
<th>STREET</th>
<th>CITY</th>
<th>STATE</th>
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<th>PRESENT</th>
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EMPLOYMENT AND PERSONAL HISTORY

Account for all times for the past ten years. Give all employment experience starting with your present employer and working back ten years. Include full and part-time work, self-employment, military service, unemployment and fuller-time education. (If this page is being filled as part of a Form BD, start with your present employer instead.)

<table>
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<tr>
<th>NAME</th>
<th>STATE</th>
<th>CITY</th>
<th>STREET</th>
<th>ZIP</th>
<th>MONTH</th>
<th>YEAR</th>
<th>POSITION HELD</th>
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Are you currently employed in any other business that shows above actor as a proprietor, partner, officer, director, trustee, employee, agent or otherwise?

[ ] YES [ ] NO  
If "YES", please explain below:

The appropriate signature above does not have to be completed unless the page is being completed by an appropriate individual.

MONTH DAY YEAR SIGNATURE OF APPROPRIATE SIGNATORY CBO USE ONLY

TYPE OR PRINT NAME OF APPROPRIATE SIGNATORY
FORM U-4
UNIFORM APPLICATION FOR SECURITIES INDUSTRY REGISTRATION OR TRANSFER

THE APPLICANT MUST READ THE FOLLOWING VERY CAREFULLY.

1. I swear or affirm that I have read and understood the items and instructions on this form and that my answers including attachments are true and complete to the best of my knowledge. I understand that I am subject to administrative, civil, or criminal penalties if false or misleading answers are made.

2. I apply for registration with the jurisdictions and organizations indicated in Item 10 as may be amended from time to time, and in consideration of the jurisdictions and organizations issuing the registration or transfer, I subject to the authority of the jurisdictions and organizations and agree to comply with such rules, regulations, orders, and notices as any of the jurisdictions and organizations may issue, whether of their own authority or pursuant to any authority granted to them by law.

3. I agree that neither the jurisdictions or organizations nor any person acting on their behalf shall be liable for action taken or omitted to be taken in official capacity or in the scope of employment, action or omission as otherwise provided in the statutes, regulations, certificates of incorporation, bylaws or the rules and regulations of the jurisdictions and organizations.

4. I understand the jurisdictions and organizations to give any information that I may have concerning me to any employer or prospective employer, any federal, state or local agent, or official, or any other organization in which I may be attached or which may be interested in my fitness for employment.

5. I agree to abide by any dispute, claim or controversy that may arise between me and any firm, or customer, or any other person, that is required to be arbitrator under any written agreement, or among any of the organizations indicated in Item 10 as may be amended from time to time, and that any arbitration award rendered against me may be entered as a judgment in any court of competent jurisdiction.

6. If the purpose of possessing with the laws relating to the offer or sale of securities or commodities by the jurisdictions indicated in Item 10 as may be amended from time to time, I immediately appoint the administrator of such a jurisdiction as the administrator, and such other person designated by law, to the extent of such appointment or proceeding against me acting as such or in connection with the offer or sale of securities or commodities or in the transaction alleged to be lawful under the laws of the jurisdictions, I consent to receive or accept service of process from the administrator of such a jurisdiction or such other person as the administrator of such a jurisdiction may designate.

7. I consent that notice of any investigation or proceeding by any self-regulatory organization against me may be given by personal service, or by registered or certified mail to the address indicated in Item 10 as may be amended from time to time, or by any other method prescribed by law.

8. I understand that I may have no other reasonable expectation of privacy in any information furnished to this form, and that any information furnished to this form may be disclosed to any self-regulatory organization or any other entity acting on its behalf, including any such organization's employees.

9. I understand and acknowledge that the representations in this form apply to all employers, and that any person who consents to furnish or submit either me an employer or a self-regulatory organization, or any other organization or entity acting on its behalf, information concerning me. The registration may be denied, suspended or revoked under any self-regulatory organization's rules and standards.

10. I have read and understand the terms and conditions of registration as indicated in Item 4 of this form, and I understand that the application for registration with the jurisdictions and organizations indicated in Item 10 as may be amended from time to time, the rules and regulations of the jurisdictions and organizations, and the terms and conditions of registration as indicated in Item 4 of this form, and that registration may be denied, suspended or revoked under the laws, regulations, rules of the jurisdictions and organizations.

SIGNATURE OF APPLICANT

TYPE OR PRINT NAME OF APPLICANT

THE FIRM MUST COMPLETE THE FOLLOWING.

IN ADDITION, I HAVE TAKEN APPROPRIATE STEPS TO VERIFY THE ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN AND WITH THIS APPLICATION.

THE APPROPRIATE SIGNATORY AREA MUST BE COMPLETED ON ALL INITIAL, TRANSFER OR AMENDMENT FILINGS.

FORM U-6
UNIFORM APPLICATION FOR SECURITIES INDUSTRY REGISTRATION OR TRANSFER

THE APPLICANT MUST READ THE FOLLOWING VERY CAREFULLY.

1. I swear or affirm that I have read and understood the items and instructions on this form and that my answers including attachments are true and complete to the best of my knowledge. I understand that I am subject to administrative, civil, or criminal penalties if false or misleading answers are made.

2. I apply for registration with the jurisdictions and organizations indicated in Item 10 as may be amended from time to time, and in consideration of the jurisdictions and organizations issuing the registration or transfer, I subject to the authority of the jurisdictions and organizations and agree to comply with such rules, regulations, orders, and notices as any of the jurisdictions and organizations may issue, whether of their own authority or pursuant to any authority granted to them by law.

3. I agree that neither the jurisdictions or organizations nor any person acting on their behalf shall be liable for action taken or omitted to be taken in official capacity or in the scope of employment, action or omission as otherwise provided in the statutes, regulations, certificates of incorporation, bylaws or the rules and regulations of the jurisdictions and organizations.

4. I understand the jurisdictions and organizations to give any information that I may have concerning me to any employer or prospective employer, any federal, state or local agent, or official, or any other organization in which I may be attached or which may be interested in my fitness for employment.

5. I agree to abide by any dispute, claim or controversy that may arise between me and any firm, or customer, or any other person, that is required to be arbitrator under any written agreement, or among any of the organizations indicated in Item 10 as may be amended from time to time, and that any arbitration award rendered against me may be entered as a judgment in any court of competent jurisdiction.

6. If the purpose of possessing with the laws relating to the offer or sale of securities or commodities by the jurisdictions indicated in Item 10 as may be amended from time to time, I immediately appoint the administrator of such a jurisdiction as the administrator, and such other person designated by law, to the extent of such appointment or proceeding against me acting as such or in connection with the offer or sale of securities or commodities or in the transaction alleged to be lawful under the laws of the jurisdictions, I consent to receive or accept service of process from the administrator of such a jurisdiction or such other person as the administrator of such a jurisdiction may designate.

7. I consent that notice of any investigation or proceeding by any self-regulatory organization against me may be given by personal service, or by registered or certified mail to the address indicated in Item 10 as may be amended from time to time, or by any other method prescribed by law.

8. I understand that I may have no other reasonable expectation of privacy in any information furnished to this form, and that any information furnished to this form may be disclosed to any self-regulatory organization or any other entity acting on its behalf, including any such organization's employees.

9. I understand and acknowledge that the representations in this form apply to all employers, and that any person who consents to furnish or submit either me an employer or a self-regulatory organization, or any other organization or entity acting on its behalf, information concerning me. The registration may be denied, suspended or revoked under any self-regulatory organization's rules and standards.

10. I have read and understand the terms and conditions of registration as indicated in Item 4 of this form, and I understand that the application for registration with the jurisdictions and organizations indicated in Item 10 as may be amended from time to time, the rules and regulations of the jurisdictions and organizations, and the terms and conditions of registration as indicated in Item 4 of this form, and that registration may be denied, suspended or revoked under the laws, regulations, rules of the jurisdictions and organizations.

SIGNATURE OF APPLICANT

TYPE OR PRINT NAME OF APPLICANT

THE FIRM MUST COMPLETE THE FOLLOWING.

IN ADDITION, I HAVE TAKEN APPROPRIATE STEPS TO VERIFY THE ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN AND WITH THIS APPLICATION.

THE APPROPRIATE SIGNATORY AREA MUST BE COMPLETED ON ALL INITIAL, TRANSFER OR AMENDMENT FILINGS.
**UNIFORM APPLICATION FOR SECURITIES INDUSTRY REGISTRATION OR TRANSFER**

**DISCLOSURE REPORTING PAGE (DRP)**

**INSTRUCTIONS**

This Disclosure Reporting Page (DRP) is to be used to report details of affirmative responses to items 22 questions.

- Use a separate DRP for each event or proceeding. Complete items 1-8 below. (Item 9 is optional.)
- Each event may result in more than one “yes” answer in item 22; if so, use only one DRP to report the information.
- The information provided on this DRP will be entered into the CPO system verbatim. It is very important that clear and concise information be provided for each item on this form.
- It is not a requirement that documents be provided for each event or proceeding. Should they be provided with the DRP, they will not be accepted.

**1. This DRP relates to the following questions in item 22:**

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
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<tbody>
<tr>
<td>22A</td>
<td>02C (2)(d)</td>
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<tr>
<td>22B</td>
<td>02C (2)(b)</td>
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<td>22C</td>
<td>02D (2)</td>
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<td>22D</td>
<td>02E (2)</td>
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</table>

**2. Is this DRP being filed to change or update any information regarding a previously reported event or proceeding?**

- Complete items 1-8, and if yes, also state the item below which are being changed.

**3. Who initiated the event or proceeding?**

Enter name of firm, regulator, court, customer, etc.

**4. What type of event or proceeding was this?** (i.e., Customer Complaint, Termination, Civil, Administrative, Criminal, Arbitration)

**5. On what date was the event or proceeding initiated?**

**6. Identify the docket or case number of the event or proceeding if any.**

**7. What were the allegations against you?** (Include amount of actual or alleged damages or claims.)

**8. a. What is the current status of the event or proceeding?**

**b. On what date was the status reached?**

**c. What was the result?** (Include any sanctions imposed, a description of the penalties, amount of free, payment or settlement, item of the disposition, length of suspension or restriction, etc.)

**9. You may provide a brief summary of the event or proceeding. (Your information must fit within the space provided.)**

**WORTH: **

**DAY: **

**MONTH: **

**YEAR: **

**EXECUTION OF APPLICANT**

---

**DISCLOSURE REPORTING PAGE (DRP)**

Rev. Form 24-1110 (97)
Survey

1. Does your Credit Union offer full brokerage services to your members?
   ___ yes
   ___ No

2. What type of office is your CUSO?
   ___ Branch Office
   ___ Introducing Broker/Dealer
   ___ Purchased or Merger of other financial center

3. Does your Credit Union offer your members insurance products and services?
   ___ Yes
   ___ No

4. What criteria were used to determine what products to offer your members?
   ___ Membership size
   ___ Asset size
   ___ Requested by members

5. Do the members of your Credit Union favor one stop shopping for all their financial needs?
   ___ Yes
   ___ No
   ___ Don't know

6. Do you offer your members a consolidated statement for all their financial transactions?
   ___ Yes
   ___ No
7. Does your Credit Union offer Internet access for all members to their accounts?

______ Yes
______ No
WORKS CITED


How to Become a Member of the NASD, National Association of Securities Dealers, Inc.: GPO, 1994.


WWW.Globalfindata.com