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Credit union startups rise after NCUA simplifies chartering rules

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The National Credit Union Administration wants to be more encouraging of groups that want to launch new credit unions, but this mission is sometimes stymied by its own role as a regulator.

The NCUA generally requires founders to raise more capital than most startups can reasonably gather for a not-for-profit cooperative, while at the same time limiting the services new credit unions can offer. In part because of these constraints, only four new credit unions received charters in 2021 — but this is significant progress, considering that this is the same number that were chartered in the prior three years combined. By comparison, nine community banks were chartered in 2021, according to the Federal Deposit Insurance Corp.

"That reality hasn't changed much, if at all, over the past twenty years and the result has become that a half dozen or so de novo charters per year becomes a very, very good chartering year," said Dennis Dollar, a credit union consultant and a former NCUA chairman.

The NCUA in late December granted its fourth new federal charter of 2021 to Unity of Eatonville Federal Credit Union in Eatonville, Florida. The regulator approved just one federal charter in 2020, and the four granted last year were the most since 2015.

This year, the NCUA also granted federal charters to Capital Federal Credit Union in Lubbock, Texas, Community First Fund Federal Credit Union in Lancaster, Pennsylvania, and Maun Federal Credit Union in Kendall Park, New Jersey.

NCUA board Vice Chairman Kyle Hauptman made it a priority to help de novos when he joined the agency in 2020. The industry loses a "couple hundred" credit unions a year and needs to offset those departures, he said.

Hauptman called last year's additions a "significant uptick" and said the market should determine how many viable credit unions there are, rather than "an overly bureaucratic" approval process.

"My only role is making sure NCUA's process doesn't dissuade charters," he said.

To that end, the agency has streamlined its chartering manual, which guides applicants through the process of founding a new credit union. "It's not as daunting now, but everybody still has to do what they have to do," said Sarah Bang, senior advisor to Hauptman.

And it seems to be working.

All four of the new charters granted last year were completed in less than a year, Bang said. By comparison, it took Maine Harvest Federal Credit Union more than six years before the NCUA finally granted its charter in 2019.

The NCUA is also working on a provisional charter, which would allow applicants to begin fundraising efforts before they can open their doors.

Michael Bell, an attorney with Honigman, said there has always been a slow trickle of de novos and he doesn't expect that to materially change anytime soon, regardless of any changes the regulator implements. Bell said he typically works on two or three de novo analysis and applications each year, and 2022 should be no exception.

"I do agree that the NCUA is properly and rightfully trying to make the pathway easier, and I applaud that," Bell said. "However, I am just not sure how much of a difference it will make in the end. There is only so much interest."

Since 2014, the NCUA has granted only 20 new charters. As of Sept. 30, 2021, there were 4,990 federally insured credit unions, compared with 5,785 five years ago.

Geoff Bacino, a consultant and former NCUA board member, said credit must be given to the NCUA board for its continuing efforts to add new credit unions. Although mergers will always be part of the landscape, it is "heartening" to see that NCUA understands the value of new institutions, Bacino said.

"While it is not an easy task, NCUA appears to be light- years ahead of their bank counterparts in terms of understanding the market and the need to expand through new charters rather than to just merge existing credit unions," he said.

Dollar said the best year in the last twenty years for new credit union charters was 2003, his last full year as NCUA chairman, when 13 de novos formed.

"That's not a number to brag about at all — it's just a sign of the reality of chartering a new not-for-profit financial institution with very limited services, without the profit motive driver and under the cooperative structure credit unions operate in," he said.

Looking ahead to 2022, there may be a small uptick in credit union chartering, as opportunities arise to focus on underserved markets, said Vincent Hui, managing director at Cornerstone Advisors.

But the challenge in the current environment is getting the resources and capital to get a new organization up and running, and that includes initial capital as well as people, Hui said. "I think there will be opportunities for new CUs, but there will still be headwinds that will discourage some folks," he said.

--- **Index References** ---

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