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Launching a credit union? A recession might help.

Ken McCarthy

It's always challenging to start a new credit union, and that challenge might only be compounded by the current economic environment with rising interest rates and a looming recession .

Or it might not.

"If a recession comes, it could be good for the credit unions because the banks will shun people away and they run to credit unions," said John Linzey, the inaugural president and CEO for Generations United Federal Credit Union, which is based in New York City and plans to open in the first quarter of 2024.

The fear of a recession may also lead to banks tightening up their lending, and that can be good for credit unions, Linzey said.

Generations United looked at rate trends from 2008 until today and is projecting that rates may soon fall, Linzey said. So the credit union is going to make a lot of variable-rate loans rather than fixed-rate loans at startup, he said.

The National Credit Union Administration announced in April that it had awarded a federal charter to Generations United Federal Credit Union . It was only the agency's second charter of 2023. In February, the NCUA granted a charter to For Members Only Federal Credit Union in Chicago.

Groups trying to start credit unions in recent years have said the process can be frustrating , and Linzey agreed.

"It was harder than I thought," he said. "It would get frustrating, and if you get frustrated you probably stop. But if you do exactly what they say, you'll get the charter."

Generations United was aided through the chartering process by two "mentor" credit unions — the \$23 million-asset ELCA Federal Credit Union in Chicago and the \$26 million-asset The Finest Federal Credit Union in New York City. ELCA is the credit union for the Lutheran church.

Generations United has been in the works for five years, and the group pushed hard to get approval in the last two, Linzey said. Generations United is sponsored by the United Church of Christ and will primarily serve employees and members of the church. The organization has 4,700 churches and approximately 745,230 members.

"Part of the process is [the NCUA] wants to make sure that you know what you're doing. And I realized that in the end — with the amount of time I spent on it — I know what I'm doing now," Linzey said.

The NCUA has said in recent years that it wants to be more encouraging of groups looking to launch credit unions and to make the federal chartering process less painful for applicants.

Since 2014, the NCUA has granted only 26 charters . The regulator granted four charters each of the last two years and just one in 2020.

Mark Treichel, a former executive director of the NCUA who now runs Credit Union Exam Solutions, said credit unions that got chartered during the pandemic were probably at a disadvantage because of the limited amount of NCUA presence on-site. The NCUA often helps the de novos get moving in the right direction, he said.

"Starting up in a year that led to little personal contact — from every side of the world a credit union operates in — could be a disadvantage for a new charter," Treichel said.

NCUA regulations provide flexibility for new credit unions in meeting capital requirements, he added. Linzey did not want to share the credit union's exact capital position but said it has met the NCUA's mandates.

The credit union will have no branches when it launches next year. The group never considered a state charter because the church has members all over the country, Linzey said.

"I think the pandemic would help us because everybody's has gotten used to being virtual," Linzey said. "And I think if we did this before the pandemic, it would have probably been a little harder to get people to embrace using a virtual credit union."

In general, regulators are less rigid with credit union de novos compared with bank startups, according to Michael Bell, an attorney with Honigman.

"I think there is good reason for this based upon the size and scope difference that is inherent in a de novo credit union versus a de novo bank," Bell said.

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