

## Dream of New Kind of Credit Union Is Extinguished by Bureaucracy

By [NATHANIEL POPPER](#)



Brewster Kahle in front of the Internet Archive Federal Credit Union in New Brunswick, N.J. He's giving up on the idea. *Credit Bryan Anselm for The New York Times*

Brewster Kahle didn't need to start a bank.

He made a fortune building start-ups and then used his money to build the Internet Archive, a nonprofit trying to maintain a copy of everything published on the Internet.

In 2008, though, Mr. Kahle saw how hard it was for the employees at his firm to obtain loans, and more broadly, how the existing financial system had helped contribute to the financial crisis. He thought he could do things differently, and he aimed to prove it when he began applying to open a credit union in early 2011.

Since then, the credit union has faced a barrage of regulatory audits and limitations on its operations, first when it tried to work with low-income immigrants in New Jersey and especially after it looked at

providing banking services to Bitcoin companies that were being rejected by other banks.

Now, Mr. Kahle is giving up on his dream of creating a new kind of bank, one for social good rather than profit. He hopes to give the credit union charter to a nonprofit organization in New Jersey that can make use of it — or give it up.

Mr. Kahle's experience and internal documents offer a glimpse into how regulators approach a new technology like Bitcoin, which most banks have refused to touch, partly because of the hesitation of regulators. More broadly, the troubles faced by his Internet Archive Federal Credit Union point to how difficult it can be to try out anything new in the heavily regulated industry.

After an 18-month application process, regulators let the Internet Archive Federal Credit Union open in 2012, but with restrictions that did not allow it to offer basic banking products, such as debit cards and online banking.

Mr. Kahle said the credit union asked its regulators before it took on the first Bitcoin clients — and quickly dropped those clients after the regulators turned sour on the idea — but it has faced a steady stream of official exams since: 11 in 14 months. In August, the credit union, by its own count, spent 187 hours dealing with regulators and only 61 hours dealing with customers.

"I think we could really use some new ideas in the banking world — and the credit union offers a nice structure," Mr. Kahle said. "But they just won't allow it."

A spokesman for the National Credit Union Administration, a federal agency whose board is appointed by the president, said it would not comment on Mr. Kahle's specific complaints, but in a statement, the chairwoman of the agency, Debbie Matz, a Democrat, said that "if a credit union thinks it's going to be cited for breaking the law, sometimes a C.E.O. will push back and blame the regulator. It's our job to protect depositors."

The chief executive of Mr. Kahle's credit union, Jordan Modell, said that the N.C.U.A. had never given him any indication that the credit union would be cited for breaking the law.

Mr. Modell and Mr. Kahle said the red flags raised by the N.C.U.A. examiners had been over small discrepancies and record-keeping issues — and often turned out to be factually wrong.

"None of the compliance issues listed in the report were correct," the credit union wrote in an appeal sent to the N.C.U.A. in May, after the agency lowered the credit union's regulatory rating.

The credit union administration has faced criticism from the newest of its three board members, J. Mark McWatters, a Republican, who has said that the agency has been too focused on protecting its insurance fund for credit unions from any losses and has consequently prevented credit unions from growing and serving customers.

At a conference for credit union executives this year, Mr. McWatters told the audience that it deserved

a “rethinking of the relentless barrage of rules and regulations visited upon your organizations by N.C.U.A. and other regulators.”

Credit unions are like banks that are owned by their customers, rather than shareholders seeking profit. In the United States, most credit unions are overseen by the N.C.U.A., which plays a role similar to the one the Federal Deposit Insurance Corporation does for traditional banks. Although credit unions were viewed as a potential alternative to banks after the financial crisis, the number of credit unions in the United States has been shrinking each year since the crisis. There are around 6,300 credit unions, down from 7,000 in 2012 and 8,400 in 2007.

Mr. Kahle, who has an inventor’s shock of gray, frizzy hair, went to work on the credit union in early 2011 with Mr. Modell, an old friend who had experience in banking. An eager and easily excitable man, Mr. Modell was set to handle the day-to-day operations while Mr. Kahle put up \$1 million of his own money to serve as a capital cushion to protect the credit union from any losses.

Mr. Modell said that during the 18-month application process, he and Mr. Kahle made 4,756 changes to their application and made it through only because of Mr. Kahle’s wealth.

“I could afford to say yes at every turn — every time they made some weird demand,” Mr. Kahle said.

When they did get their charter from the N.C.U.A. in August 2012 — the first new credit union chartered that year — the Internet Archive Federal Credit Union was limited by the regulators to loans of \$5,000 or less, and it could generally serve only people in a small area around New Brunswick, N.J., where the credit union was located.

The credit union aimed to provide financial services to poor immigrants, and its opening was attended by the Mexican consul general in New York. But Mr. Modell said that with the restrictions placed on it, the credit union would only have been able to give out what amounted, in practice, to predatory payday loans, which he did not want to do.

Mr. Modell said he accepted the restrictions because he was assured that they would be lifted within a few months. When that did not happen, Mr. Modell and Mr. Kahle began looking at opening basic accounts for companies using the Bitcoin currency, given Mr. Kahle’s own experience with technological innovation.

When the N.C.U.A. expressed displeasure with the decision Mr. Modell said, the credit union dropped the two Bitcoin companies it had taken on.

The credit union’s other ideas for expansion were also shot down. In 2014, the Internet Archive Federal Credit Union tried to team up with an organization for migrant workers, the Farmworker Support Committee, to offer bank accounts and cheaper money transfers, but the idea was eventually rejected by an N.C.U.A. examiner.

The N.C.U.A. sent its examiners on an increasingly frequent basis and requested more and more monthly reports from Mr. Modell — often asking about the credit union’s past interest in Bitcoin

customers. By mid-2014, the credit union had made less than \$50,000 in loans and Mr. Kahle suggested to Mr. Modell that it was time to give up.

Mr. Modell resisted and offered to stop taking a salary. But he, too, became increasingly frustrated, particularly after the N.C.U.A. cited the credit union for refinancing a small loan that was past due.

“That was actually a sound and safe business decision and the reason credit unions were created in the first place,” Mr. Modell wrote in a letter to the N.C.U.A. “The member was out of work and in contact with us.”

Mr. Modell has since tried to keep the credit union alive but recently consented to Mr. Kahle’s desire to give up on the project.

“The original vision of this thing — of helping nonprofit workers, or helping the poor — they will not allow it,” Mr. Kahle said.

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