Credit Unions

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The credit union industry has changed dramatically.

- Credit unions are now a $1.2 trillion industry.
- Credit unions today compete for the same business and offer the same products as community banks.
- There are now 252 credit unions with more than $1 billion in assets. These large credit unions are bigger than 90 percent of America's community banks.
- The large, diversified credit unions have strayed from their traditional mission of serving people of modest means, and compete head-on with thousands of community banks that are much smaller.
- A study by the Government Accountability Office found that industry consolidation has resulted in two distinct groups of credit unions – large credit unions that offer a wide array of bank-like products and small, traditional credit unions that provide more fundamental financial services.
- Compared to credit unions, banks tend to have a wider range of products and services, along with more convenient locations and ATMs.
- Despite their reputation, credit unions don't always have the better rates or lower fees compared with local banks.

Credit unions want it both ways: expanding powers while maintaining their tax exemption.

- To protect their special privileges, some huge financial institutions are masquerading as traditional credit unions yet are essentially banks.
- The average American family pays more in taxes than the entire $1 trillion credit union industry.
- As credit union membership expands, so does the cost to American taxpayers, who underwrite the credit union industry's tax subsidy to the tune of more than $2.5 billion a year.[1]
- Eliminating the tax exemption would level the playing field while raising revenue that can help close the nation's fiscal gap.
- Between 2015 and 2019, the credit union tax subsidy will cost American taxpayers $12.8 billion.[1]
- Congress has removed other financial cooperatives' tax exemptions after they outgrew their mission. For instance, after concluding in 1951 that mutual savings banks were in "active competition" with taxable institutions, Congress removed the mutual banks' tax exemption.
- Tax exemptions encourage or reward certain behavior—such as serving people of modest means. Why do large, expansive credit unions continue to be rewarded for behavior they no longer exhibit?

Many credit unions are no longer fulfilling their mission of serving people of modest means.

- Credit unions have special federal privileges, such as a tax exemption, because of their legal mandate to serve people of modest means. With these special privileges come limitations, such as business lending and field of

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membership restrictions. If these credit unions no longer merit these privileges, they should be required to convert to a bank.

- GAO reported 31 percent of households using credit unions had low or moderate incomes, compared with 41 percent of households using banks.
- Some credit unions now serve areas larger than some states, yet they aren't required to reinvest in their communities. For instance, L.A. Financial Credit Union was granted a "community" charter serving all of L.A. County – an area larger than Delaware and Rhode Island combined.
- The National Community Reinvestment Coalition released a study in Sept. 2009 that found banks outperformed credit unions in serving people of modest means. The consumer group specifically called for Congress to apply Community Reinvestment Act rules that require banks to lend back to their communities – to large credit unions.
- According to 2012 HMDA data, approximately 1.7 percent of credit union mortgages went to low-income borrowers.

Expanding credit unions business lending will blur their mission.

- As part of their "special status" Congress chose to cap credit unions' business lending at 12.25 percent of assets to ensure they remained focused on consumers rather than business loans.
- Credit unions have authority to make business loans to members under current federal law. Credit unions are allowed to make as many business loans as they want under $50,000 without limits. Only loans larger than $50,000 are subject to the cap.
- Only a small number of credit unions would be affected by raising the limit. As of September 2015, only 40 credit unions were at or near their Congressionally mandated cap of 12.25 percent.[2]

Credit unions should be allowed to convert to mutual savings institutions.

- Changing charters can be an effective way for a credit union to adjust to individual market conditions and the needs of its members.
- Many credit unions recognize there are – and should be – limits to what a tax exempt organization can do. When choosing the mutual charter, credit unions are preserving mutual ownership for their members while expanding the opportunity to serve their communities. They can break free from restrictions on business lending and their field of membership.
- The National Credit Union Administration continually puts up roadblocks when credit unions want to become mutual savings banks. This clearly violates the intent of Congress when it required that conversion rules should be "no less restrictive" than banking regulations. In all other financial institution charter transfers, only the future regulator has a say in the matter.

Background:

The 1934 law establishing the federal credit union charter stated its purpose was "to make more available to people of small means credit for provident purposes through a national system of cooperative credit." Once, members of a credit union knew each other and pooled their resources to provide credit for their co-workers and/or neighbors. Today, many credit unions have grown into highly profitable, billion-dollar institutions offering a full range of financial services–including insurance and

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securities brokerage–to just about anyone. These institutions look and act like banks, yet they do not pay taxes or abide by the same rules as banks.

The NCUA has steadily adopted policies that have expanded credit union membership beyond the limits prescribed by Congress. As credit union membership expands, so does the cost to American taxpayers, who underwrite the credit union industry's tax subsidy to the tune of more than $2.5 billion a year.

ABA has challenged NCUA's policies through comment letters and in court and will continue to make the case that similar institutions ought to be treated similarly.

Sources:

[1] *Analytical Perspectives: Budget of the United States Government (p. 206),* Office of Management and Budget (Fiscal Year 2015). Retrieved from http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/receipts.pdf

[2] *National Credit Union Administration*