



Credit Union National Association

cuna.org

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May 16, 2012

The Honorable Charles W. Boustany, Jr. MD
Chairman
Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Boustany:

On behalf of the Credit Union National Association (CUNA), I am writing in response to a letter you received from the Independent Community Bankers of America (ICBA) that requested you hold a hearing on the “growing tax-exempt credit union sector.” CUNA is the largest advocacy organization in the United States, representing nearly 90% of America’s 7,300 state and federally chartered credit unions and their 95 million members. We recognize that the credit union tax status is not the subject of your hearing today; however, the ICBA letter contains inaccurate and misleading assertions regarding credit unions that deserve a response.

The banks assert that “credit unions are becoming harder and harder to distinguish from taxpaying banks with which they compete.” However, the structural difference between credit unions and banks has not changed since credit unions’ inception in the United States more than 100 years ago, and the practical differences between credit unions and banks have been enhanced by the events of the last several years. As the economy recovers from the greatest financial crisis since the Great Depression, credit unions are now, more than ever, a critical alternative for consumers and small businesses seeking access to affordable financial services.

As you know, credit unions are member-owned, not-for-profit financial cooperatives; because of this structure, the Attorney General in 1917, and later Congress, granted credit unions an exemption from federal income tax which has been in effect since their inception, and which has been reaffirmed several times, including in 1935, 1936, 1937, 1951, and 1998. Over the years, credit unions, like other financial intermediaries, have evolved and have innovated; however, the structure, which is the bedrock of Congress’ rationale for the tax exemption, has remained unchanged. Credit unions exist today, as they did more than 100 years ago, as financial cooperatives, and their not-for-profit, tax-exempt status helps to assure that they fulfill their role of providing viable choices in the financial marketplace. This cooperative structure sets credit unions apart from other financial services providers.



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In recent years, credit unions have distinguished themselves from banks even further. The for-profit financial services sector was responsible for the greatest financial crisis since the Great Depression, requiring taxpayers to provide banks a significant amount of assistance through the Troubled Asset Relief Program (TARP). In April, the Special Inspector General of TARP released a quarterly report regarding TARP operations and oversight, and it was particularly critical of small bank business lending, noting that taxpayers are still owed \$118 billion from TARP, including \$15 billion owed by small banks, and many of which banks have missed quarterly payments.¹ However, the American Bankers Association reports “[an industry] net income of \$26.4 billion in the fourth quarter [of 2011], an increase of \$4.9 billion (23.1%) from a year earlier.... Almost two-thirds of all institutions (63.2%) reported improved earnings, and many institutions were profitable (81.1%).”² If the banking sector is making so much money, why are banks not repaying their obligations to taxpayers?

Credit unions did not cause the financial crisis, and did not need a taxpayer-funded TARP bailout to survive. One of the reasons that this has been the case is that the not-for-profit credit union ownership structure is fundamentally different than the for-profit bank ownership structure. Credit unions generally operate in a more conservative manner, taking fewer risks with their members’ money than banks may take with their stockholders’ investments. For credit unions, the goal is not to make a profit for shareholders, but rather provide affordable financial services to their members. As a result, credit unions have proven to be safe and sound financial institutions, which have endured financial crises from the Great Depression to the Great Recession without needing a taxpayer bailout, in clear contrast to the for-profit banking sector.

The ICBA also notes that the credit union tax status has received a budget score; however, their letter cites a private-sector analysis which is significantly higher than any government score. Regardless, the analysis cited by the ICBA and the various government assessments fail to take into consideration the fact that most credit union income is passed through to credit union members as “dividends” on which those members pay taxes; or the fact that Americans receive considerable benefit from having credit unions in the market place. When looking at all the facts, it becomes crystal clear that the benefit of having credit unions in the marketplace under their current tax treatment outweighs the cost to the government.

Virtually every American benefits from the credit union tax exemption, whether or not he or she belongs to a credit union. We estimate the annual benefit to communities to be more than \$10 billion, compared to the approximately \$1 billion score the exemption has recently received. These benefits manifest themselves in several ways – in lower interest

¹ Department of Treasury. Special Inspector General for Troubled Asset Recovery Program Quarterly Report to Congress. April 2012. 29.

² American Bankers Association. Condition of the Banking Industry. Fourth Quarter 2011.

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rates and fees than for-profit banks charge, in higher credit union rates of return on deposits, and in a focus by management and the Board of Directors on the member/owners, as opposed to shareholders. Even those consumers and small businesses that do not belong to a credit union benefit from the credit union tax exemption because the presence of credit unions in a market motivates banks to keep their rates and fees competitive.

If the credit union tax exemption were eliminated, the ability of millions of American consumers and small businesses to rely on a system of financial cooperatives for affordable access to mainstream financial services would be jeopardized. While the challenges Congress and the administration face with respect to the budget are significant, any proposal to tax credit unions represents poor public policy that would undoubtedly result in negative consequences for savers and borrowers, the most severe of which would be the erosion of a credit union option for millions of Americans. If taxed, a very significant number of larger credit unions are expected to convert to banks and an equally significant number of smaller credit unions would simply liquidate. The remaining credit unions would have to pass the costs of taxation on to their members because they are wholly owned cooperatives, increasing the cost of accessing mainstream financial services.

Taxing credit unions would amount to a gift of tens of millions of customers to the for-profit banking industry at a time when the public is exceptionally dissatisfied with that industry and is actively pursuing alternatives. In 2011, the number of credit union members increased by 1.3 million. The recent credit union growth resulting, in part, from the recent Bank Transfer Day is an indication that Americans want choices besides banks, and the credit union tax exemption helps ensure that they will find affordable alternatives. Inasmuch as there has been no change in the ownership structure of credit unions and credit unions continue to fulfill their mission, as evidenced by their growth and the substantial positive variance in benefits compared to cost, suggestions that the credit union tax status should be altered in any way should be rejected.

On behalf of America's credit unions and their 95 million members, thank you very much for your consideration of our views.

Best regards,

A handwritten signature in black ink, appearing to read "Bill Cheney", with a long, sweeping underline that extends to the right.

Bill Cheney
President & CEO