

Overview of Findings

April 2007 GAO Report on Banking Activities

- The report catalogues a number of subsidies, tax preferences and expenses the federal government incurs or has incurred for the benefit of the U.S. banking industry, and describes the profitability of the banking industry.
- GAO's updated estimates of the costs of the FSLIC bailout, in 2006 dollars, are:
 - Resolution costs born by taxpayers: \$166 billion
 - Interest costs born by taxpayers: \$272 billion¹
 - Total FSLIC bailout costs born by taxpayers: \$438 billion
- CUNA calculates that it would take 313 years at the Treasury's 2007 estimate of \$1.4 billion for the credit union tax exemption to equal the total taxpayer cost of dealing with the savings and loan crisis.
- In 2005, \$5.3 billion worth of export loan guarantees, export credit insurance, and working capital guarantees from the Export/Import Bank were in effect for U.S. lenders. The Bank is unable to report how much of this \$5.3 billion pertained to banking institutions.
- In 2007, the federal tax revenue loss due to the bad debt loss provision for smaller banking institutions will be \$10 million.
- GAO reports that tax revenue losses due to special tax breaks for lending activities in the U.S. in 2007 will be \$2.3 billion. CUNA estimates conservatively that banking institutions account for between \$575 million and \$1.15 billion of this subsidy.
- GAO reports that banks are significant users of Subchapter S status, and presents an analysis showing the net effect of electing Subchapter S status is to lower the total amount of tax for a Sub S bank and its owners by almost 22% compared to what a Subchapter C bank and its owners would pay. As of December 2006, 2,356 depository institutions, including two with over \$10 billion in assets, have elected Subchapter S status. CUNA estimates, based on GAO's analysis, that the 2006 tax revenue loss from these 2,356 Subchapter S banking institutions was \$726 million.
- Based on the GAO report, CUNA's combination of known or conservatively estimated banking institution federal tax breaks yields a 2007 total of between \$1.3 billion and \$1.9 billion.
- In addition, GAO reports that "According to IRS officials, they have found a number of instances in which some banks have participated in tax shelters and transactions that they view as abusive."
- Over the past ten years, net income after inflation has increased more than twice as fast at banks and thrifts than at credit unions. The inflation-adjusted annual growth rate for net income was 7% at banks, 8% at thrifts, and 3% at credit unions.
- Measured by return on assets (net income divided by average assets) banks are generally more profitable than thrifts which in turn are more profitable than credit unions. In 2006, GAO reports that return on assets was 1.27% at banks, 0.96% at thrifts, and 0.81% at credit unions. CUNA's analysis of FDIC data reveals that smaller banks have also been very profitable over the past several years, with an average ROA of 1.2% in 2006.
- GAO reports that although publicly available information on executive compensation in the banking industry is limited, compensation for bank executives, especially CEOs, has increased.
- CUNA has consulted a number of private sources, and finds that in 2006, average bank CEO total compensation was \$353,000 compared to \$88,000 for credit union CEOs. This disparity is evident even when comparing like-sized institutions.

¹ CUNA converted GAO's estimate of the total taxpayer share of interest costs of \$285 billion into 2006 dollars.