

Not-For-Profit U.S. Credit Union Tax Status

History, Benefits and Public Policy Considerations

Credit Union National Association
Research and Policy Analysis
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EXECUTIVE SUMMARY

The U.S. Congress is now contemplating comprehensive reform to the nation's tax code.

As a consequence, credit unions – not-for-profit financial institutions - may find their current tax status under review in the not-too-distant future.

Maintaining the credit union tax status is critically important: changing the tax status would threaten the survival of the nation's 6,100 credit unions; it would erode the financial well-being of 109 million credit union members; and it would result in the loss of significant indirect benefits that accrue to society as a whole.

More specifically, the analysis included in this report reveals that the tax treatment conveyed on credit unions roughly 100 years ago continues to serve the purpose for which it was created and is one of the best investments that the government makes in its citizens. Credit unions provide substantial benefits to their members. And the dollar amount of the benefits greatly exceeds the loss in federal revenue that would result from imposing new taxes on credit unions. This is possible because it is the cooperative structure itself that generates these benefits. Credit unions are not-for-profit institutions with no stockholders demanding a market rate of return on their investment – so earnings are passed along to member-owners not outside investors. Volunteer directors and executives that are fairly (not lavishly) compensated also are hallmarks of the cooperative structure that boosts these member benefits.

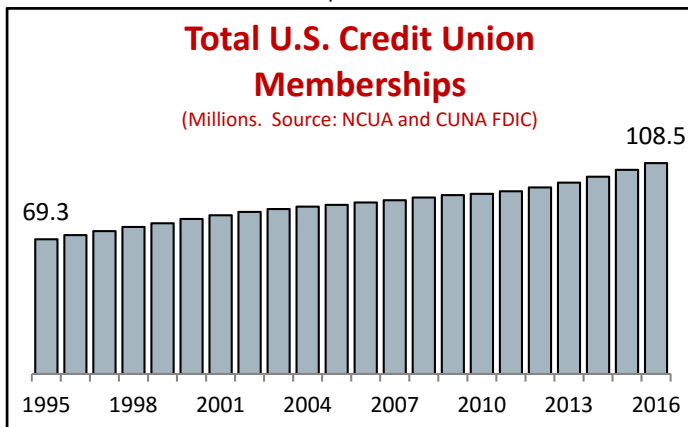
Imposing new taxes on credit unions would threaten the provision of these benefits because many larger credit unions would likely convert charters and operate as banks, and many smaller credit unions would simply go out of business. Imposing new taxes on credit unions thus would cost credit union members far more than the amount of additional dollars they would be paying in taxes.

U.S. Credit Union Overview

Credit unions are member-owned, democratically governed, not-for-profit cooperative financial institutions generally managed by volunteer boards of directors, with a specified mission of promoting thrift and providing access to credit for provident purposes to their members, especially those of modest means.¹

Credit unions were established at the Federal level during the Great Depression, but existed in many states as far back as 1908. Their inception was driven by a demand for access to basic financial services – loans and savings. The establishment of credit unions provided an alternative to the for-profit banking sector, controlled by members and accessible to all.

At year-end 2016 there were 6,082 credit unions in the United States – 61% federally-chartered and 39% state chartered. Credit unions control \$1.3 trillion in total assets and collectively have a total of 109 million memberships.

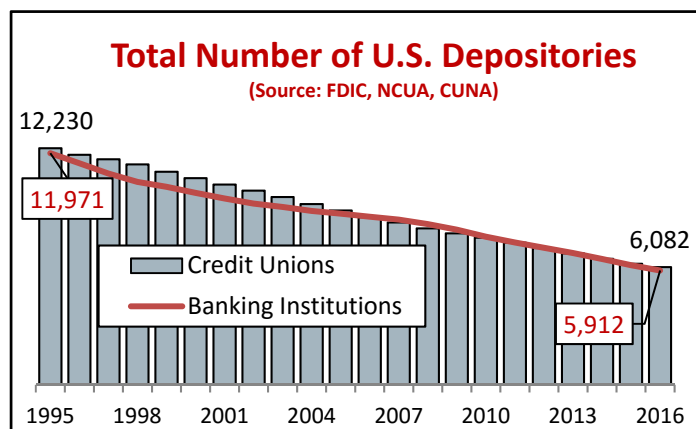


Credit unions, like banking institutions, have experienced significant consolidation over the past several decades. In 1995 there were 12,230 credit unions and 11,971 banking institutions in the U.S. By 2016, those numbers had declined by about half - to 6,082 credit unions and 5,912 banking institutions.

Most of the decline in both industries occurred as smaller entities merged operations into larger institutions in an effort to achieve greater scale

economies, improve service offerings and expand geographic footprints. However, over the past decade roughly, 20% of the decline in the number of banking institutions can be traced to bank failures. In contrast, among credit unions – which tend to be much more conservatively managed than banking institutions – only about 7% of the decline resulted from involuntary liquidation or assisted merger.

Despite significant consolidation, credit unions remain relatively small, locally-controlled institutions. The typical credit union reports \$29 million in total assets and is over seven times smaller than the typical banking institution (which reports \$204 million in total assets).² The average credit union size (adding up total assets and dividing by the number of institutions) is \$222



¹ 14 USC 12 § 1751. U.S. banking institutions, in contrast, are almost exclusively for-profit, stockholder-owned institutions managed by boards that are compensated.

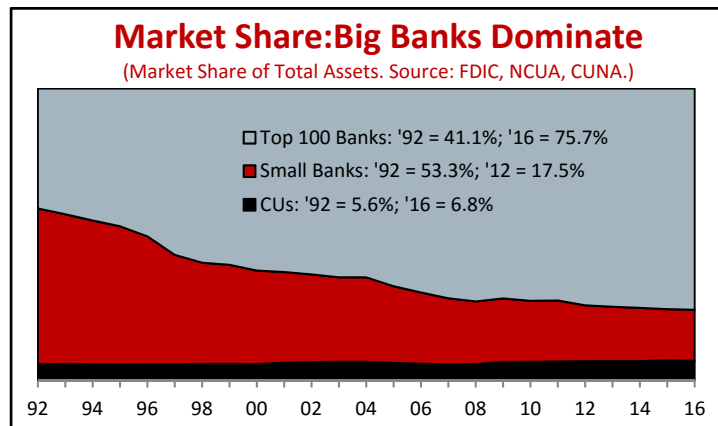
² “Typical” is here defined as the median asset size – obtained by sorting all institutions from largest asset size to smallest asset size and identifying the midpoint asset value. Only 3% of U.S. banks are smaller than the \$29 million median size credit union.

million, while the average bank asset size is \$2.84 billion (i.e., \$2,840 million). Overall, nearly 40% of credit unions are operated by five or fewer full-time equivalent employees.

Although credit union membership and total assets have been growing, banking institutions dominate the depository market. It has taken 108 years for credit unions to grow to a total of \$1.3 trillion in assets. In contrast, U.S. banking institution assets grew by about this much – \$1.2 trillion - in the past two years. Today the banking industry collectively controls \$16.8 trillion in total assets. At year-end 2016, the biggest four banking institutions (J.P. Morgan Chase, Wells Fargo Bank, Bank of America, and Citibank) were each individually larger than the entire credit union movement.

Overall, credit union assets are equal to 6.8% of depository institution assets – a market share that increased imperceptibly over the past twenty-plus years.

It is interesting to note that while credit union market share of total depository assets has risen by roughly one percentage point, credit union memberships as a percent of the population has increased faster (from 26.0% in 1995 to 32.4% in 2016). This suggests that credit unions do not disproportionately serve the wealthy – in fact the numbers strongly suggest the opposite to be the case.



CU Tax Status Historical Perspective

Congress conveyed an exemption from federal income tax to state and federally chartered credit unions because of their ownership structure and special mission. Credit unions are member-owned, democratically governed, not-for-profit cooperative financial institutions generally managed by volunteer boards of directors, with a specified mission of promoting thrift and providing access to credit for provident purposes to their members, especially those of modest means.³ Through the enactment of the Federal Credit Union Act and the credit union tax exemption, as well as enabling legislation in 47 states, Congress and the states have sanctioned and encouraged the development of a dual-charter credit union system comprised of financial institutions that are owned by member-depositors and accessible to all as an alternative to the investor-owned, for-profit banking system.

Credit unions have been exempt from Federal taxation since the earliest days of the tax code.⁴ Credit unions'

³ 14 USC 12 § 1751.

⁴ Credit unions were first made tax exempt in 1917 through a ruling by the United States Attorney General. The ruling noted that, "On examination of the purpose and object of such association(s?), it appears that they are substantively identical with domestic building and loan associations or cooperative banks 'organized and operated for mutual purpose and without profit' [quoting from the 1916 statute]. It is to be presumed that the Congress intended that the general terms used in Section 11 should be construed as not to lead to injustice, oppression, or an absurd consequence." This served as the basis for the exemption of state chartered credit unions from federal income tax until 1951, when mutual savings banks lost their tax exemption because they were deemed to have lost their mutuality but credit unions retained their tax exemption because, as is the case today, they hold firm to their

exemption from Federal income tax has been conveyed in order to support and sustain a system of cooperative financial services in the United States. The existence of this thriving set of alternative financial institutions benefits not only the members of credit unions, but also customers of for-profit banks and other institutions.

As the years have passed, the financial services sector has developed, and the entities providing financial services, including credit unions, have evolved. Some have suggested that with the evolution of expanded services offered by credit unions, they have become simply untaxed banks. That position ignores the very real differences that distinguish investor-owned and cooperative firms. The fact of the matter is that even though credit union services have evolved, their structure and mission have remained the same.

Precisely because of their cooperative structure, credit unions behave differently from investor-owned financial institutions, and that difference in behavior produces substantial benefits both to nation's 109 million credit union members, but also to non-members and the economy as a whole.

Two features of the cooperative structure are crucial in generating substantial benefits to society: their total focus on member value and service, and their tendency to risk aversion. Because of credit unions' strong member focus, driven by their democratic governance structure, credit unions have every incentive to not only "pass on" but also to leverage the benefits of the tax exemption rather than diverting it in some form of expense preference.⁵

The cooperative structure also discourages excessive risk taking by credit unions. Because they take on less risk, they tend to be less affected by the business cycle, and therefore can serve as an important counter cyclical economic force in local markets, softening the blow of economic downturns in local economies.

In addition, credit unions' member focus and the absence of a strong profit motive allow them to offer significant advantages to their members of modest means.

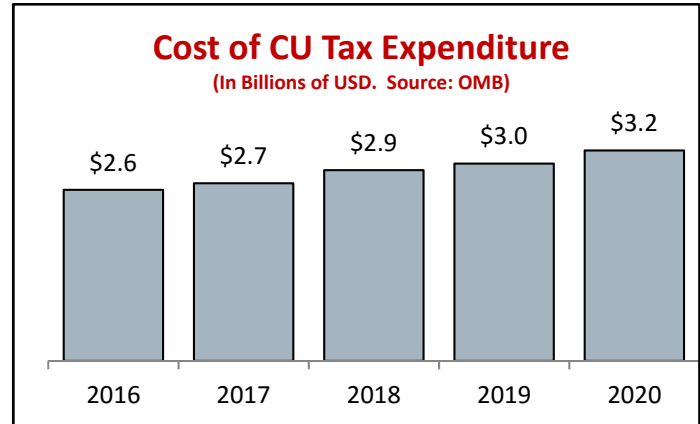
Tax Status Costs and Benefits

As a consequence of their member-focused, cooperative structure, credit unions confer on their members and the rest of society benefits that far exceed the amount of revenue lost to the Treasury due to the tax exemption. The Office of Management and Budget recently estimated that the credit union "tax expenditure" totaled \$2.3 billion in 2016 and will average a like amount - \$2.3 billion - over the four years between 2017 and 2020.

mutuality and cooperative principles. Federally chartered credit unions were made exempt from federal income tax in 1937.

⁵ *Expense preference* refers to managerial behavior that places the preferences of managers (inflated salaries and benefits, perquisites, lavish offices, etc.) ahead of the otherwise recognized goals of the firm. In an investor owned firm, expense preference behavior would result in sacrificing profit (investor value) for managerial preferences. For tax-exempt credit unions, expense preference behavior would imply providing excessive managerial emoluments rather than using or leveraging the tax exemption for the benefit of members. There is NO evidence of expense preference resulting from the tax exemption: Comparing similarly sized banks and credit unions, both generally have expense-to-asset ratios in the range of 2.5% to 3.5% in 2016; the aggregate 10.9% year-end 2016 credit union capital ratio is nearly five percentage points higher than the level regulators consider to be "adequate" but is no higher than the aggregate bank equity capital ratio; also, as noted elsewhere in this report, compensation comparisons between banks and credit unions show lower compensation for credit union senior executives at similar sized institutions – and substantially lower compensation when data on bank stock options, grants and similar non-cash compensation is considered.

The direct and indirect financial benefits that credit unions provide to both members and others far exceed those totals, amounting to an estimated \$14.0 billion in 2016 and \$110.2 billion since 2007. The tax exemption is leveraged because credit unions do not pay dividends to stockholders, generally do not compensate their directors, and do not compensate senior executives as highly as banks do when stock options and grants are taken into consideration.



2016 CU and Bank Pricing Profile			
Loan Products	Average Rate at Credit Unions (%)	Average Rate at Banks (%)	Rate Difference vs. Banks (%)
60-month new car (A paper)	2.62	3.81	-1.19
48-month used car (A paper)	2.82	4.05	-1.23
Unsecured loan (A paper)	9.18	9.77	-0.60
5-year adjustable rate 1st mortgage, 0 pts	3.74	3.77	-0.03
15-year fixed rate 1st mortgage, 0 pts	3.50	3.58	-0.08
30-year fixed rate 1st mortgage, 0 pts	4.19	4.24	-0.05
Home equity / 2nd mtg, 80% LTV 0 pts	4.17	4.68	-0.52
Credit card - classic	11.34	16.51	-5.17
Credit card - gold	10.00	15.15	-5.15
Savings Products			
Regular savings, \$1,000 balance	0.23	0.09	0.14
Share draft checking, \$5,000 balance	0.52	0.16	0.36
Money market accounts	0.19	0.09	0.10
1 Year certificate \$10,000 balance	0.57	0.30	0.28
Retirement (IRA) accounts	0.38	0.19	0.19
Fee Income			
Share draft checking, NSF fee	\$28.23	\$31.16	-\$2.92
Credit cards, late fee	\$24.56	\$34.18	-\$9.62
Mortgages, closing costs	\$1,151.00	\$1,361.00	-\$210.00

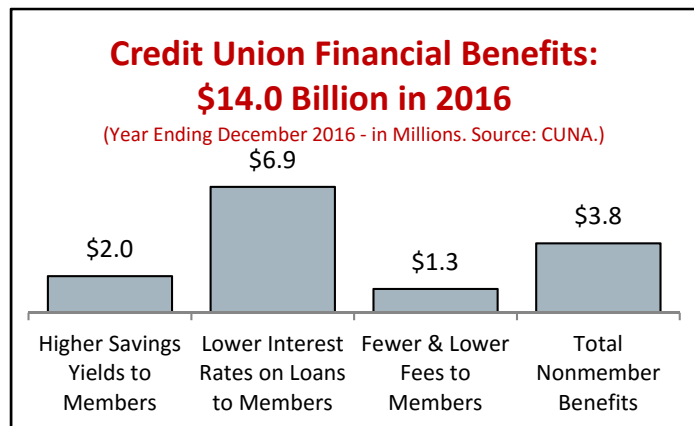
Source: Informa Research Services.

Credit unions provide benefits directly to their members in the form of lower fees, lower rates on loans, and higher yields on deposits than those available at other financial institutions.

Applying rate differentials from third party sources to the volumes of various loan and deposit accounts at credit unions, and applying fee differentials to credit union non-interest income, allows calculation of the total amount that members benefit from using credit unions. In 2016, we calculate the nation's credit unions delivered direct financial benefits to

members totaling \$10.2 billion. Since 2007 those financial benefits have totaled \$79.4 billion.

In addition, several independent researchers have found that credit unions have a moderating influence on bank pricing: raising bank deposit interest rates and lowering bank loan rates.⁶ Based on this research, we estimate that bank customers saved \$3.8 billion in 2016 from more favorable bank pricing arising from the presence of credit unions in their local markets. Since 2007 those non-member financial benefits have totaled approximately \$30.8 billion.

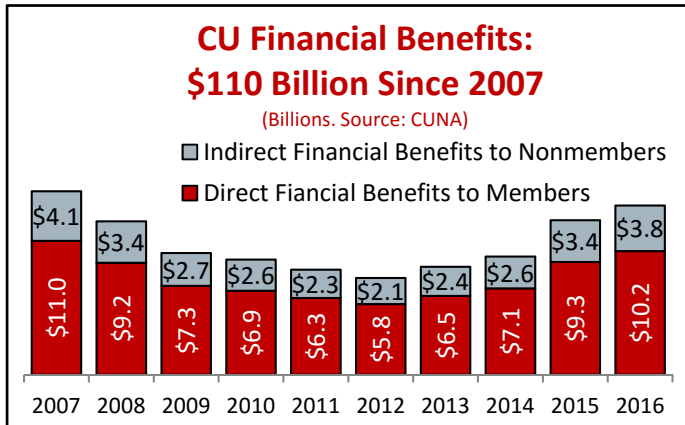


Because all interest rates are compressed near zero, there now is less room for typical differences

⁶ Robert J Tokle, *The Influence of Credit Unions on Bank CD Rate Payments in the US*, New York Economic Review, Fall 2005. Timothy H. Hannan, *The Influence of Credit Unions on the Rates Offered for Retail Deposits by Banks and Thrift Institutions*, Federal Reserve Board of Governors, September 2002. Robert M. Feinberg, *The Competitive Role of Credit Unions in Small Local Financial Services Markets*, Review of Economics and Statistics, August 2001. Robert M. Feinberg, *The Effects of Credit Unions on Bank Rates in Local Consumer Lending Markets*, Filene Research Institute, 2001.

between credit union and other rates. As market interest rates rise the combined credit union member and non-member benefits are likely to increase.

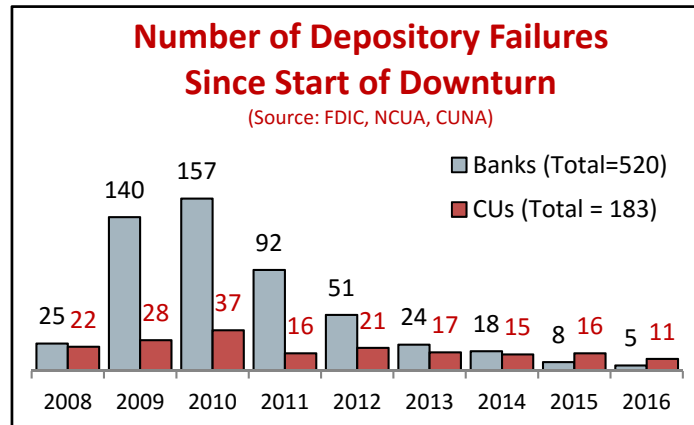
Appendix IA contains a detailed state-by-state listing of estimated total financial benefits credit unions delivered to their members in 2016. Appendix IB contains long-run total benefits and a breakdown of 2016 benefits by source.



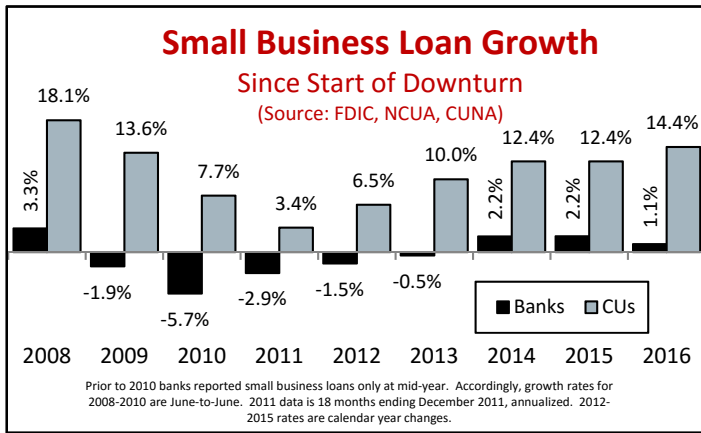
In addition to these quantifiable benefits, credit unions also provide consumers of financial services significant intangible benefits. As member-owned and governed institutions, credit unions focus on providing exceptional member (customer) service. This too places competitive pressure on banks to follow suit. In the 21 years from 1985 to 2005, the *American Banker* newspaper published an annual survey of consumers of financial services, and each year credit unions scored much higher than banks in customer service. Sessions at bank conferences with titles such as “Emulating the Customer Service of Credit Unions” have been reported. This is just

another way that the existence of a cooperative alternative to investor-owned banks has value not only for credit union members but also for bank customers. [Trust index etc.](#)

The incentives faced by credit union management (generally uncompensated volunteer boards, the absence of stock options for senior management and board members, the absence of pressure from stockholders to maximize profits) induce management to eschew higher-risk, higher-return strategies.⁷ As a result, credit union operations are less risky, and subject to less volatility over the business cycle. For example, from 1992 to 2016, the average annual net charge-off rate on credit union loans was 0.60%, with a standard deviation of 0.21%. In contrast, the similarly computed average at banks over the same period was 0.91%, with a much greater standard deviation of 0.60%.



⁷ Edward J. Kane and Robert J. Hendershott, *The Federal Deposit Insurance Fund that Didn't Put a Bite on U.S. Taxpayers*, *Journal of Banking and Finance*, 20 (September, 1996), pp. 1305-1327. Kane and Hendershott describe how the cooperative structure of credit unions presents credit union decision makers with incentives that are strikingly different from those faced by a for-profit financial institution, making it less feasible for credit union managers to benefit from high-risk strategies.



Because of this lower-risk profile, credit unions were able to continue lending during the recent financial crisis while other financial institutions failed or had to curtail operations due to damaged balance sheets caused by less risk averse practices leading up to the crisis.

From June 2007, the onset of the financial crisis, to December 2016, small business loans at credit unions more than doubled – growing by over 145.3% or an average of 10.5% per year. In contrast, such loans at banks actually declined by 11.7% (or -1.4% per year.)

Similarly, a study recently published by the Small Business Administration found, “that credit unions are increasingly important sources of small business loans as a longer-run development and in response to fluctuations in small business loans at banks.”⁸

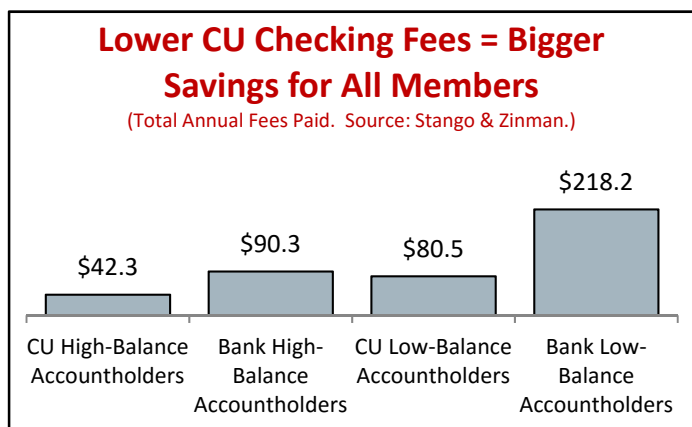
This same commitment was evident in the mortgage lending arena. As the secondary market for residential mortgages collapsed in 2007, the amount of first mortgages originated by credit unions actually rose by 11% in 2007 and 18% in 2008.

The tax exemption, by fostering the continued existence of credit unions as a cooperative alternative in the market, supports this countercyclical lending role for credit unions.

Appendix II contains state-by-state mortgage and business loan growth experience during the crisis and its aftermath.

Credit unions offer full and fair service to all of their members, and credit union membership tends to be concentrated in the working class of Americans. Approximately half of credit union members who rely primarily on their credit union for financial services have incomes between \$25,000 and \$75,000.

Compared to other providers, credit unions offer services to lower-income members at prices that are very attractive, and with less of a price markup compared to services offered to higher income members compared to other providers. In fact, credit unions sometimes charge their lower-income members less for a service than banks charge even their higher-income customers. For example, a recent study found that the fees banks collect on an annual basis on low balance checking accounts (\$218) are two and a half times what they collect on high-



⁸ James A. Wilcox, *The Increasing Importance of Credit Unions in Small Business Lending*, Office of Advocacy, Small Business Administration, September 2011. p v.

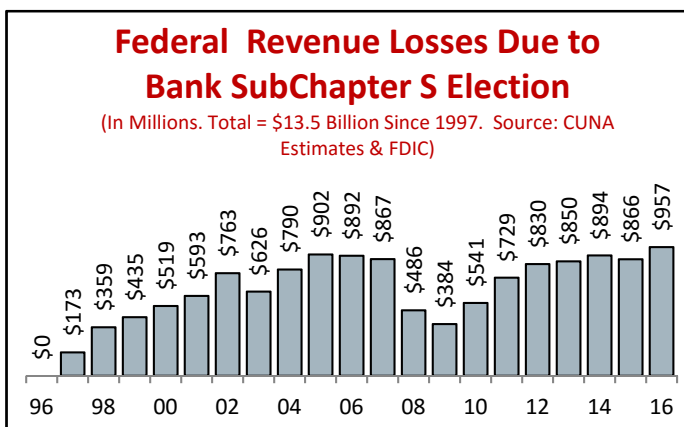
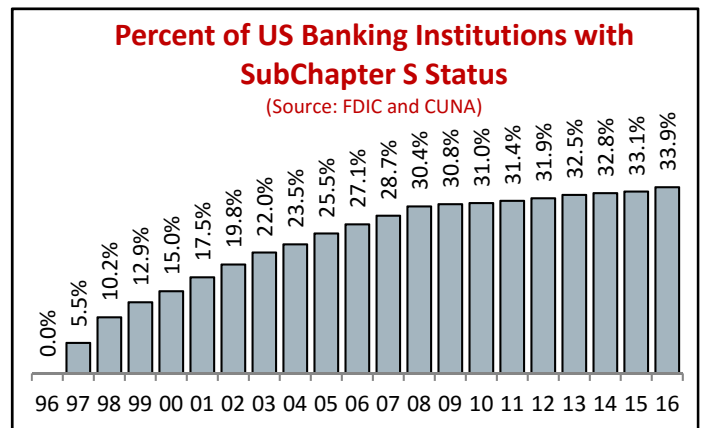
balance accounts (\$90).⁹ In contrast, fees credit unions collect on low-balance accounts (\$80) are less than a third of those collected by banks on low-balance accounts, are even less than what banks collect on high-balance accounts, and are less than twice what they collect on their own high-balance accounts (\$42). In other words, consumers generally get better deals from credit unions than from banks, and this is particularly true for lower income members.

In addition to providing access to financial services, credit unions also endeavor to provide financial literacy education to their members, and to encourage individual and family level thrift and saving. Seventy-five percent of credit union members belong to a credit union that offers some form of financial education. Sixty-three percent of credit union members belong to a credit union that offers financial literacy workshops. Roughly one in five credit union members belong to a credit union that operates one or more in-school branches. Credit unions engage in this activity not just through altruism, but also because it is in the best interest of the credit union to have members who are educated on how to best use the cooperative.

Tax Treatment and Public Policy Goals

Tax policy has consistently recognized that the health of small, locally controlled businesses is vital to the country's economic health. The credit union tax exemption furthers this goal in a manner similar to the tax treatment of Subchapter S corporations, investor-owned firms with no more than 100 shareholders.

At year-end 2016 there were 2,006 Subchapter S banking institutions in the U.S. (over one-third of all banks). These institutions jointly account for over one-half trillion in total assets. While bank Subchapter S election is not the same as a tax exemption, it does significantly reduce Treasury revenue by between a quarter and a third compared to what those banks would pay as normal Subchapter C corporations.



The U.S. Treasury's foregone revenue due to bank Subchapter S election is estimated to be \$957 million in 2016 and \$13.5 billion since 1997.

A detailed state-by-state listing of bank Subchapter S election including estimated foregone revenue appears in Appendix III.

The importance of having not-for-profit credit unions as vibrant and viable alternatives in the financial services marketplace is as significant today as it has ever been, and the credit union tax exemption is crucial to encourage and

⁹ Victor Stango and Jonathan Zinman, *What People Pay: Deposit Account Fees at Banks and Credit Unions*, Filene Research Institute, November 2009. The authors, from the University of California, Davis and Dartmouth College analyzed the results of actual account usage at banks and credit unions. The annual fee totals are the result of the volume of various types of transactions, and the pricing of those transactions.



support the continued existence of this alternative, cooperative component of the financial system. In the aftermath of the financial crisis, more Americans are choosing credit unions as their best financial partner. In fact, in 2016, 4.2 million Americans joined credit unions. Some may have joined because their bank failed, moved or was acquired by another institution; and others may have joined because they grew frustrated with the policies and fees of the for-profit sector. As credit union members, they benefit from conducting their financial services with an institution that they own; this means when the credit union succeeds, credit union members succeed.

Through these and other activities, credit unions employ the tax status to fulfill the purpose for which it was created. As a result, the credit union tax status has proved not only to be good public policy but also to represent an incredible return on the investment that the government has made. Credit unions provide accessible and affordable basic financial services to people of all means and encourage the equitable distribution of capital across all individuals, families, communities, and small businesses. Credit unions infuse financial market competition with multiple and differentiated competitive business models. They help keep financial services accessible – and affordable – for all consumers, whether they are members of a credit union or not.

Taxation and Mutual Savings Banks

Some in the for-profit financial services sector would like to see Congress repeal the credit union tax exemption. Often mentioned in these discussions is the notion that credit unions are larger today than historically and that they offer the same products and services offered by banking institutions. Thus, they claim that credit unions ought to be treated like mutual savings banks – a class of depositories that lost its tax-exempt status in 1951.

However, mutual savings banks lost their tax exemption in 1951 not because they had become “too big” or too similar to other financial services providers, but because they had lost their mutuality in the sense that the institutions’ depositors did not exercise democratic control of the enterprise.

Mutual savings banks engaged in widespread proxy voting schemes. Federal credit unions are prohibited from using proxy votes under the Federal Credit Union Act (12 USC 1760), while mutual savings banks continue to use proxy voting. Thus, in a mutual savings bank, the board, which directs all policies and operations of the institution, can be elected through control of the proxies. The Office of Thrift Supervision clearly stated the practical application of this practice in its Regulatory Handbook (Section 110, Capital and Stock Ownership): “In practice, members delegate voting rights and the operation of federal mutual saving associations through the granting of proxies typically given to the board of directors—or a committee appointed by a majority of the board.”

Mutual savings banks were not democratically controlled (voting was based on the size of each member’s deposit). Mutual savings banks can—and often do—apportion voting privileges based on one vote for each \$100 in an account, up to 1,000 votes. As recently as 1998, the OTS changed its regulations to permit mutual savings banks to amend their bylaws to allow from one to 1,000 votes per member. In direct contrast to this practice, each credit union member has always had one vote, regardless of the amount they have in the credit union.

So, while some mutual savings banks claim that they are “community and employee owned,” it’s unlikely that their depositors enjoy the equal ownership and voting rights afforded to all credit union members. In fact, what the thrift regulator and the courts have said about ownership rights of federally chartered mutual thrift depositors clearly support this. An illustrative case is *Ordower v. Office of Thrift Supervision*, where mutual bank depositors challenged the OTS’s approval of a conversion from a mutual savings bank to stock form. The court stated “Nominally the customers own the mutual, but it is ownership in name only.” The now-defunct thrift regulatory handbook also stated:

“The ability to exercise control over a mutual savings association by its members is not coextensive with the rights of stockholders of ordinary corporations.” (Section 110, Capital and Stock Ownership).

While it is true that Congress found that mutual savings banks had evolved into commercial bank competitors there is no evidence that today’s credit unions are a competitive threat to banks or thrifts. The current level of credit union competition in the marketplace pales in comparison to the presence that mutual savings banks had when the Senate Report was written in 1951. Indeed, at the time mutual savings banks lost their tax exemption they controlled over 50.0% of all consumer deposits (small time and savings deposits) in the U.S. according to the Federal Reserve Flow of Funds. In contrast, in 2016, credit unions held only 9.7% of total consumer deposits in the U.S.

As noted earlier, the real competition in the banking industry has been taking place between small and large banks. Since 1992, small community banks have lost nearly two-thirds of their depository market share to the largest 100 U.S. banking institutions, while credit unions have essentially maintained their depository market share in the 6% to 7% range over that period.

Conclusion

Taxing credit unions would 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 burden of taxation through to their members because they are wholly owned cooperatives, increasing the cost of accessing mainstream financial services.

Taxing credit unions would undermine the purpose for which credit unions were created, and 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 actively pursuing alternatives. Furthermore, taxing credit unions would do very little in terms of addressing the federal budget deficit. Taxing credit unions would have offset only 0.4% of the federal government’s budget deficit in 2016; It would fund the federal government for approximately five hours. But, it would represent a tax increase on the 109 million members of credit unions – who collectively paid an estimated \$1.4 trillion in state and federal income taxes in 2016.

One of the motivations behind comprehensive tax reform is to reduce distortions of resource allocation caused by preferences and exemptions, thereby allowing a reduction in corporate tax rates by expanding the tax base. The resource reallocation occasioned by the credit union tax exemption has been modest – for the past two decades credit unions have accounted for only 6% to 7% of the assets in US depository institutions. Nevertheless, as described above, roughly 109 million working-class Americans benefit in an amount much greater than the cost of the tax exemption. Applying corporate tax rates to credit unions would raise less than 0.7% of corporate tax revenue, allowing almost no reduction in corporate tax rates – however, once again, it would represent a tax increase on 109 million Americans.

Appendix IA

2016 Estimated Total Financial Benefit Arising From Current CU Tax Status

Including Tax Revenues from Higher Savings Yields and Member and Non-Member Financial benefits

Sources: FDIC, NCUA, CUNA.

State	(I) Total Number of Institutions	(II) Total Assets (Billions)	(III) Estimated Increase in Tax Revenue Arising From Higher CU Savings Yields (Millions)	(V) Estimated Total Member Benefits (Millions)	(VI) Estimated Non-Member Benefits (Millions)	(VII) Estimated Total Member and Non-Member Benefits (Millions)	(VIII) Gross Public Financial Benefit of CU Tax Exemption (Millions) (III) + (VI)
Alabama	115	\$21.3	\$2.8	\$148.3	\$57.8	\$206.2	\$209.0
Alaska	12	\$9.4	\$1.8	\$92.9	\$36.2	\$129.1	\$130.9
Arizona	43	\$16.2	\$2.3	\$118.8	\$46.3	\$165.2	\$167.4
Arkansas	58	\$2.8	\$0.6	\$32.5	\$12.7	\$45.2	\$45.9
California	328	\$176.7	\$21.9	\$1,141.3	\$445.1	\$1,586.4	\$1,608.3
Colorado	82	\$22.5	\$3.2	\$166.8	\$65.1	\$231.9	\$235.0
Connecticut	103	\$10.0	\$1.4	\$73.8	\$28.8	\$102.6	\$104.1
Delaware	19	\$2.2	\$0.4	\$21.0	\$8.2	\$29.2	\$29.6
District Of Columbia	40	\$7.5	\$0.7	\$37.5	\$14.6	\$52.1	\$52.8
Florida	141	\$58.7	\$10.1	\$526.9	\$205.5	\$732.3	\$742.4
Georgia	114	\$22.0	\$3.8	\$198.6	\$77.4	\$276.0	\$279.8
Hawaii	63	\$11.1	\$1.5	\$80.5	\$31.4	\$112.0	\$113.5
Idaho	36	\$7.7	\$1.4	\$75.5	\$29.4	\$104.9	\$106.3
Illinois	280	\$42.6	\$5.7	\$299.1	\$116.6	\$415.7	\$421.5
Indiana	158	\$25.2	\$2.8	\$147.9	\$57.7	\$205.6	\$208.4
Iowa	94	\$15.6	\$2.0	\$103.8	\$40.5	\$144.3	\$146.3
Kansas	86	\$6.5	\$1.5	\$80.1	\$31.2	\$111.4	\$112.9
Kentucky	69	\$8.5	\$0.8	\$41.1	\$16.0	\$57.1	\$57.8
Louisiana	192	\$10.9	\$2.4	\$125.4	\$48.9	\$174.3	\$176.8
Maine	58	\$7.3	\$1.1	\$57.1	\$22.3	\$79.4	\$80.4
Maryland	89	\$23.0	\$4.4	\$228.2	\$89.0	\$317.1	\$321.5
Massachusetts	172	\$36.0	\$6.0	\$314.7	\$122.7	\$437.4	\$443.4
Michigan	246	\$56.4	\$7.2	\$373.8	\$145.8	\$519.6	\$526.8
Minnesota	121	\$21.3	\$2.5	\$130.3	\$50.8	\$181.1	\$183.6
Mississippi	78	\$5.3	\$1.1	\$59.1	\$23.1	\$82.2	\$83.3
Missouri	119	\$13.6	\$2.7	\$142.2	\$55.5	\$197.7	\$200.4
Montana	51	\$4.8	\$0.3	\$15.5	\$6.1	\$21.6	\$21.9
Nebraska	61	\$4.4	\$0.9	\$49.3	\$19.2	\$68.5	\$69.4
Nevada	17	\$4.5	\$0.7	\$35.6	\$13.9	\$49.4	\$50.1
New Hampshire	16	\$7.3	\$1.3	\$69.0	\$26.9	\$95.9	\$97.2
New Jersey	171	\$13.4	\$1.2	\$64.8	\$25.3	\$90.0	\$91.3
New Mexico	42	\$10.1	\$1.8	\$92.3	\$36.0	\$128.3	\$130.1
New York	362	\$76.9	\$10.8	\$566.4	\$220.9	\$787.2	\$798.1
North Carolina	74	\$50.3	\$5.5	\$288.2	\$112.4	\$400.6	\$406.2
North Dakota	37	\$3.6	\$0.4	\$21.7	\$8.4	\$30.1	\$30.5
Ohio	290	\$28.2	\$3.5	\$184.5	\$72.0	\$256.5	\$260.0
Oklahoma	63	\$13.7	\$2.6	\$138.1	\$53.9	\$191.9	\$194.6
Oregon	61	\$20.4	\$2.8	\$144.6	\$56.4	\$201.0	\$203.7
Pennsylvania	403	\$44.0	\$6.8	\$352.9	\$137.6	\$490.6	\$497.3
Rhode Island	20	\$5.8	\$0.6	\$33.2	\$12.9	\$46.1	\$46.8
South Carolina	65	\$13.2	\$2.1	\$110.6	\$43.1	\$153.7	\$155.8
South Dakota	40	\$3.1	\$0.5	\$26.2	\$10.2	\$36.4	\$36.9
Tennessee	148	\$21.9	\$3.8	\$197.9	\$77.2	\$275.0	\$278.8
Texas	471	\$95.4	\$17.7	\$926.3	\$361.3	\$1,287.6	\$1,305.4
Utah	68	\$22.8	\$4.2	\$221.6	\$86.4	\$308.0	\$312.2
Vermont	21	\$4.0	\$0.5	\$27.3	\$10.6	\$37.9	\$38.5
Virginia	140	\$132.8	\$26.6	\$1,388.3	\$541.4	\$1,929.8	\$1,956.3
Washington	91	\$47.6	\$7.4	\$388.7	\$151.6	\$540.3	\$547.8
West Virginia	88	\$3.5	\$0.4	\$21.1	\$8.2	\$29.3	\$29.7
Wisconsin	146	\$33.2	\$3.2	\$167.5	\$65.3	\$232.8	\$236.0
Wyoming	29	\$3.0	\$0.7	\$35.4	\$13.8	\$49.2	\$49.9
Totals	5,906	\$1,309.1	\$195.2	\$10,192.2	\$3,975.0	\$14,167.1	\$14,362.4

Column Definitions

(I) Total number of institutions at year-end 2016.

(II) Total assets in these institutions at year-end 2016 - in billions of dollars.

(III) Estimated foregone tax revenue. This is the estimated dollar amount (in millions) of taxes foregone by the U.S. Treasury due to the favorable tax status granted to these institutions. The credit union foregone revenue is calculated by applying 2016 credit union net income to the current corporate tax rates schedule.

(III) Estimated foregone tax revenue. This is the estimated dollar amount (in millions) of taxes foregone by the U.S. Treasury due to the favorable tax status granted to these institutions. The credit union foregone revenue is calculated by applying 2016 credit union net income to the current corporate tax rates schedule.

(IV) Estimated benefits are the 2016 relative dollar benefits (in millions) arising from the institutional structure adopted by the respective institutions. For-profit banking institutions have stockholders necessitating the need to deliver market rates of return on equity investment. On average, roughly 65% of bank net income is used to pay stockholder dividends. Credit unions, in contrast, are not-for-profit, democratically-controlled financial cooperatives. Without stockholders or paid directors credit unions return profits to their members in form of higher interest rates on savings accounts, lower interest rates on loans and fewer and lower fees. Column (IV) is an estimate of the dollar value of the benefit credit unions pass through to member-depositors. We calculate the benefit by using Informa pricing data to identify average differences in bank and credit union interest rates and fees - then applying those differences to the average balances outstanding at credit unions.

(V) Member/Customer benefit net of tax treatment. This is the amount by which benefits passed along to members/customers exceed the tax advantage (positive numbers) or by which the tax advantage exceed the benefits passed through to member/customers (negative numbers).

Appendix IB

Estimated Total Financial Benefit Arising From Current CU Tax Status

Ten Year Totals and Distribution of 2016 Benefits

State	Total Benefits Over Ten Years Ending 2016	Distribution of 2016 Membership Benefits			
		Total 2016 Benefits	Benefits Arising From Higher Savings Yields	Benefits Arising From Lower Loan Interest Rates	Benefits Arising From Fewer/Lower Fees
Alabama	\$1,669,552,367	\$148,324,263	\$31,553,963	\$83,432,514	\$33,337,785
Alaska	\$805,929,642	\$92,869,656	\$15,795,277	\$65,290,564	\$11,783,815
Arizona	\$1,172,304,090	\$118,823,561	\$18,004,053	\$81,333,807	\$19,485,700
Arkansas	\$236,389,849	\$32,537,761	\$5,362,030	\$22,724,481	\$4,451,250
California	\$10,384,942,986	\$1,141,329,198	\$199,260,437	\$857,413,642	\$84,655,119
Colorado	\$1,207,953,083	\$166,802,023	\$48,276,081	\$104,514,014	\$14,011,927
Connecticut	\$605,270,200	\$73,720,047	\$5,207,660	\$62,084,193	\$6,428,194
Delaware	\$537,328,352	\$21,030,761	\$4,330,377	\$13,313,255	\$3,387,129
District Of Columbia	\$217,476,678	\$37,463,370	\$14,573,253	\$19,120,194	\$3,769,923
Florida	\$4,637,741,041	\$526,852,204	\$108,483,278	\$377,421,615	\$40,947,312
Georgia	\$1,469,556,625	\$198,565,423	\$35,669,369	\$136,392,703	\$26,503,350
Hawaii	\$746,780,486	\$80,537,735	\$16,828,779	\$54,696,704	\$9,012,252
Idaho	\$555,996,461	\$75,470,377	\$19,813,826	\$41,627,547	\$14,029,004
Illinois	\$2,237,261,992	\$299,079,883	\$80,462,499	\$190,370,031	\$28,247,353
Indiana	\$1,345,654,463	\$147,906,808	\$28,772,145	\$97,942,153	\$21,192,510
Iowa	\$783,480,327	\$103,790,893	\$19,184,509	\$74,063,913	\$10,542,470
Kansas	\$578,700,420	\$80,070,432	\$14,571,611	\$54,394,906	\$11,103,915
Kentucky	\$533,212,349	\$41,051,608	\$14,362,042	\$16,766,007	\$9,923,559
Louisiana	\$991,270,624	\$125,426,710	\$18,843,646	\$75,956,571	\$30,626,493
Maine	\$455,449,790	\$57,093,474	\$13,045,793	\$36,301,033	\$7,746,647
Maryland	\$1,827,412,632	\$228,146,945	\$34,732,939	\$152,621,664	\$40,792,343
Massachusetts	\$2,281,151,124	\$314,614,436	\$63,686,546	\$235,482,348	\$15,445,541
Michigan	\$3,336,634,092	\$373,829,204	\$70,247,265	\$240,495,253	\$63,086,685
Minnesota	\$1,250,504,662	\$130,297,632	\$22,096,267	\$94,715,098	\$13,486,267
Mississippi	\$529,253,012	\$59,137,096	\$15,248,147	\$29,952,994	\$13,935,955
Missouri	\$1,055,863,495	\$142,213,307	\$64,150,192	\$68,063,793	\$9,999,323
Montana	\$203,560,517	\$15,535,384	\$1,164,917	\$11,693,622	\$2,676,845
Nebraska	\$305,589,953	\$49,278,899	\$13,015,031	\$29,114,232	\$7,149,636
Nevada	\$406,533,303	\$35,560,866	\$4,888,592	\$21,000,231	\$9,672,043
New Hampshire	\$640,708,967	\$68,955,276	\$8,727,018	\$54,458,608	\$5,769,651
New Jersey	\$606,225,175	\$64,784,430	\$11,039,115	\$44,510,500	\$9,234,816
New Mexico	\$720,296,446	\$92,298,525	\$13,915,499	\$63,753,742	\$14,629,283
New York	\$4,232,724,983	\$566,361,833	\$103,760,890	\$371,973,231	\$90,627,712
North Carolina	\$2,496,356,278	\$288,231,902	\$103,794,061	\$141,019,136	\$43,418,705
North Dakota	\$156,181,178	\$21,662,842	\$9,782,946	\$9,877,182	\$2,002,714
Ohio	\$1,648,155,578	\$184,535,665	\$48,994,878	\$102,469,914	\$33,070,872
Oklahoma	\$1,028,488,199	\$138,075,088	\$33,484,712	\$74,279,978	\$30,310,399
Oregon	\$1,388,679,180	\$144,571,578	\$28,044,513	\$100,362,810	\$16,164,254
Pennsylvania	\$2,822,321,966	\$352,882,112	\$81,701,641	\$235,940,404	\$35,240,067
Rhode Island	\$204,371,431	\$33,175,745	\$5,838,121	\$21,116,725	\$6,220,900
South Carolina	\$965,067,293	\$110,571,472	\$22,961,993	\$65,767,403	\$21,842,076
South Dakota	\$205,470,278	\$26,164,570	\$3,089,546	\$13,231,104	\$9,843,921
Tennessee	\$1,615,808,797	\$197,856,496	\$37,950,904	\$134,325,857	\$25,579,735
Texas	\$8,026,034,659	\$926,340,106	\$160,447,317	\$644,617,898	\$121,274,891
Utah	\$1,717,308,573	\$221,552,897	\$30,450,533	\$143,896,955	\$47,205,409
Vermont	\$275,802,966	\$27,292,879	\$3,920,932	\$16,315,513	\$7,056,435
Virginia	\$9,384,409,085	\$1,388,313,368	\$211,485,130	\$1,085,716,232	\$91,112,007
Washington	\$2,756,999,183	\$388,741,082	\$66,179,889	\$274,597,105	\$47,964,088
West Virginia	\$199,492,733	\$21,082,054	\$3,599,157	\$16,103,600	\$1,379,297
Wisconsin	\$1,625,204,388	\$167,457,916	\$34,415,618	\$116,964,930	\$16,077,367
Wyoming	\$243,783,076	\$35,402,789	\$17,980,244	\$16,037,450	\$1,385,095
Totals	\$79,415,164,716	10,192,186,130	2,022,571,548	6,918,942,841	1,250,671,741

Appendix II

Credit Unions Serve as Counter-Cyclical Influence - Continuing to Lend as Other Lenders Pull Back

Sources: FDIC, NCUA, CUNA.

State	% Change in Credit Union 1st Mortgage Originations During Height of Crisis			Business Loan Growth: June 2007 to December 2016		
	2007	2008	2009	Banking Institutions	Credit Unions	Difference
Alabama	22.7%	36.6%	2.1%	-0.8%	132.9%	133.7%
Alaska	19.0%	32.1%	63.7%	24.1%	145.0%	120.9%
Arizona	23.5%	-23.4%	3.4%	-16.1%	215.2%	231.3%
Arkansas	8.6%	28.7%	-7.3%	43.9%	1127.1%	1083.2%
California	16.4%	1.8%	12.0%	31.0%	27.9%	-3.1%
Colorado	32.1%	41.5%	51.5%	-18.6%	114.9%	133.5%
Connecticut	8.7%	14.5%	102.3%	89.5%	941.0%	851.5%
Delaware	37.4%	14.9%	-2.5%	228.3%	12460.8%	12232.5%
District Of Columbia	-9.7%	5.9%	132.7%	102.2%	1159.8%	1057.5%
Florida	8.0%	-20.0%	-1.1%	-0.9%	113.9%	114.9%
Georgia	13.2%	23.2%	48.6%	-0.4%	231.3%	231.7%
Hawaii	37.3%	39.5%	38.9%	21.6%	91.2%	69.6%
Idaho	19.3%	24.2%	94.6%	-40.2%	558.1%	598.4%
Illinois	29.0%	33.0%	55.7%	0.1%	146.3%	146.2%
Indiana	20.1%	14.0%	37.8%	12.1%	159.3%	147.3%
Iowa	16.1%	14.8%	63.8%	34.0%	300.9%	266.9%
Kansas	33.8%	66.0%	46.3%	-0.6%	137.8%	138.4%
Kentucky	21.4%	14.7%	10.9%	8.2%	341.4%	333.2%
Louisiana	18.0%	14.8%	18.7%	21.1%	1211.5%	1190.4%
Maine	29.7%	16.4%	17.6%	-62.4%	257.5%	320.0%
Maryland	18.5%	42.3%	56.3%	-28.8%	806.6%	835.4%
Massachusetts	1.5%	58.6%	42.0%	53.5%	182.6%	129.1%
Michigan	-12.3%	31.3%	51.5%	-77.7%	222.3%	300.0%
Minnesota	2.0%	8.9%	70.6%	2.1%	104.8%	102.7%
Mississippi	20.6%	17.1%	82.8%	65.9%	279.8%	213.9%
Missouri	9.4%	31.9%	79.9%	10.4%	524.6%	514.3%
Montana	7.5%	213.3%	9.9%	36.5%	-10.2%	-46.7%
Nebraska	-11.3%	14.3%	73.3%	56.7%	52.5%	-4.2%
Nevada	10.0%	-18.1%	-29.4%	-97.8%	-14.7%	83.1%
New Hampshire	4.9%	93.8%	28.6%	-33.2%	241.8%	275.0%
New Jersey	7.5%	37.1%	64.9%	47.7%	344.8%	297.1%
New Mexico	14.7%	19.3%	11.4%	-38.5%	419.0%	457.5%
New York	18.8%	38.1%	105.3%	75.8%	229.6%	153.8%
North Carolina	10.2%	60.3%	-4.8%	-6.5%	103.5%	110.0%
North Dakota	6.8%	24.1%	60.1%	26.2%	174.2%	148.0%
Ohio	10.3%	29.6%	52.0%	16.3%	294.0%	277.7%
Oklahoma	14.5%	17.5%	47.5%	42.1%	45.1%	3.0%
Oregon	19.7%	36.0%	59.9%	-9.1%	109.5%	118.5%
Pennsylvania	15.8%	28.0%	73.2%	-36.6%	442.9%	479.5%
Rhode Island	1.6%	75.8%	22.8%	1118.0%	98.1%	-1019.9%
South Carolina	19.2%	17.4%	33.3%	-56.1%	576.7%	632.8%
South Dakota	4.9%	20.1%	119.1%	276.9%	203.8%	-73.1%
Tennessee	8.2%	26.9%	18.2%	-0.7%	302.5%	303.3%
Texas	14.5%	15.1%	26.7%	64.0%	81.8%	17.8%
Utah	22.4%	-5.2%	13.2%	60.3%	31.1%	-29.3%
Vermont	14.1%	22.6%	122.2%	-37.7%	672.9%	710.7%
Virginia	10.0%	15.5%	25.9%	320.7%	622.2%	301.5%
Washington	25.2%	21.7%	59.7%	-31.3%	211.4%	242.8%
West Virginia	1.6%	21.3%	-8.8%	48.6%	121.0%	72.3%
Wisconsin	3.3%	40.6%	63.6%	-34.8%	118.0%	152.8%
Wyoming	-3.6%	29.4%	39.7%	-20.5%	176.7%	197.2%
Totals	12.9%	19.6%	37.9%	20.7%	130.4%	109.69%

Appendix III

2016 Estimated Foregone Treasury Revenue Arising From Favorable Tax Status: Subchapter S Banks

Sources: FDIC, CUNA.

State	(I) Total Number of Institutions	(II) Total Assets (Billions)	(III) Estimated Foregone Tax Revenue (Millions)
Alabama	39	\$8,455.4	\$10.9
Alaska	1	\$517.8	\$0.5
Arizona	0	\$0.0	\$0.0
Arkansas	38	\$10,777.9	\$15.8
California	16	\$14,880.9	\$27.2
Colorado	32	\$12,495.0	\$18.9
Connecticut	1	\$119.8	\$0.1
Delaware	1	\$159.5	\$0.4
District Of Columbia	0	\$0.0	\$0.0
Florida	29	\$8,339.9	\$12.1
Georgia	56	\$10,953.9	\$16.4
Hawaii	0	\$0.0	\$0.0
Idaho	1	\$292.4	\$0.5
Illinois	179	\$51,459.0	\$70.3
Indiana	18	\$4,579.0	\$7.0
Iowa	183	\$39,974.9	\$60.7
Kansas	135	\$28,970.5	\$41.0
Kentucky	55	\$14,417.3	\$22.3
Louisiana	61	\$16,720.2	\$21.9
Maine	0	\$0.0	\$0.0
Maryland	3	\$1,171.6	\$2.0
Massachusetts	2	\$137.0	\$8.5
Michigan	12	\$2,396.8	\$3.4
Minnesota	224	\$38,277.8	\$55.1
Mississippi	25	\$6,905.5	\$10.3
Missouri	119	\$42,592.1	\$54.1
Montana	20	\$6,999.0	\$13.8
Nebraska	74	\$23,113.1	\$36.4
Nevada	4	\$5,773.6	\$19.9
New Hampshire	0	\$0.0	\$0.0
New Jersey	6	\$5,468.6	\$10.9
New Mexico	23	\$8,289.1	\$12.5
New York	5	\$3,759.0	\$6.5
North Carolina	1	\$783.6	\$1.3
North Dakota	50	\$12,705.0	\$19.9
Ohio	23	\$8,449.1	\$17.1
Oklahoma	143	\$57,168.4	\$95.4
Oregon	3	\$799.4	\$1.0
Pennsylvania	2	\$3,261.5	\$3.9
Rhode Island	1	\$252.2	\$0.3
South Carolina	5	\$1,560.1	\$2.0
South Dakota	37	\$7,552.2	\$13.3
Tennessee	33	\$12,471.4	\$21.9
Texas	237	\$90,364.9	\$144.8
Utah	8	\$1,803.6	\$4.5
Vermont	0	\$0.0	\$0.0
Virginia	0	\$0.0	\$0.0
Washington	8	\$2,449.9	\$2.9
West Virginia	6	\$1,052.4	\$1.0
Wisconsin	68	\$18,235.9	\$26.6
Wyoming	18	\$4,829.8	\$6.4
Totals	2,005	\$591,735.9	\$921.7

Column Definitions

(I) Total number of institutions at year-end 2016.

(II) Total assets in these institutions at year-end 2016 - in billions of dollars.

(III) Estimated foregone tax revenue. This is the estimated dollar amount (in millions) of taxes foregone by the U.S. Treasury due to the favorable tax status granted to these institutions. Sub S election reduces revenue to the Treasury by somewhere between a quarter and a third compared to what it would pay as a normal, Subchapter C corporation. In effect, converting to Sub S status eliminates the dual taxation of dividends, but not the taxation of the corporation's income. The SubS foregone revenue is calculated as the difference between what these institutions would pay as Subchapter C corporations and what they AND their shareholders pay as Subchapter S