ICBA
Independent Community Bankers of America®

CREDIT UNION TAX EXEMPTION EXPOSED SERIES

ICBA strongly recommends to all public policymakers the American Banker's recent series on the credit union tax exemption, its evolution, and its impact on the American financial services landscape. The series consists of three articles: "Do credit unions still warrant a tax exemption?",[i] "Credit unions vs. banks: How we got here",[ii] and "Imagining a world where credit unions pay income taxes".[iii] American Banker did an exemplary job of balancing all perspectives and providing an even-handed account of trends in the credit union industry.

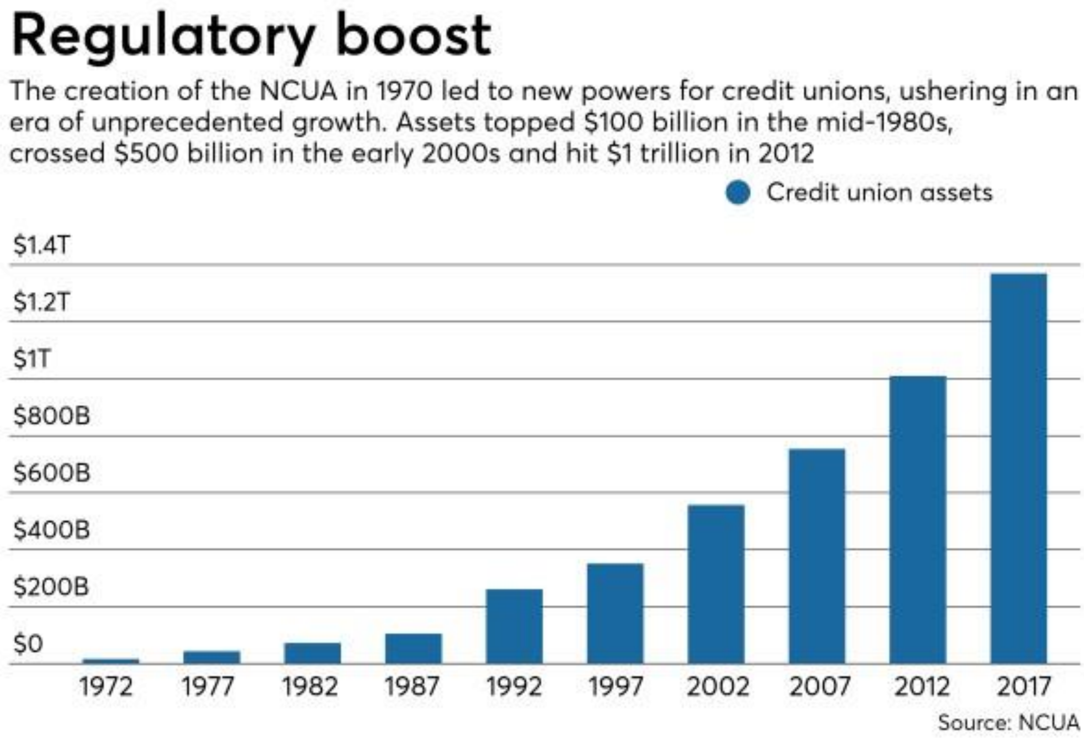
Today, ICBA begins its own series offering the community bank perspective. Each installment will focus on different aspects of the credit union industry. Taken as a whole, we believe the series will show that the credit union industry's aggressive pursuit of growth and rejection of their original mission have put their tax exemption at risk.

Part 1: Leveraging a Tax Exemption for Rapid Industry Growth Credit Union Charter Created for a Limited, Specialized Purpose

- Credit unions were founded in the early 20th century to promote savings and create access to consumer credit for populations that lacked access to these services. The original credit unions served individuals and families with a "common bond" (such as an employer, union, or church).
- In 1934, Congress passed and President Franklin Roosevelt signed into law the Federal Credit Union Act "to make more available to people of small means credit for provident purposes." Credit union membership was limited "to groups having a common bond of occupation or association" or to groups within a "well-defined neighborhood community or rural district." The law set limits of $50 for unsecured loans and $200 for secured credits.[iv]
- As noted in the American Banker series, "a provision exempting credit unions from federal and state income taxes was deleted from the original legislation."[v] At the creation of the federal credit union charter, Congress recognized that a tax exemption was flawed and unnecessary.
- However, in 1937 the Federal Credit Union Act was amended to create a full exemption for credit unions from federal, state, and local taxation.[vi] The tax exemption was intended to support credit unions' public mission of serving people of modest means.
- For much of the industry's history, credit unions stayed true to this limited purpose.

The National Credit Union Administration and the Era of Mega Credit Unions

- As documented in the American Banker series, the era of rapid growth and charter expansion began with the creation of the National Credit Union Administration (NCUA) in 1970.
- The NCUA's permissive regulation and supervision – consistently flouting the statutory limits of the Federal Credit Union Act – is largely responsible for the rapid growth of credit unions and their tax subsidy.



Source: *American Banker*

- In the past five years alone, the total assets of federally insured credit unions have grown by more than $70 billion and membership has grown by more than 10 million, while the total number of credit unions has declined by over 1,000.
- Today there are almost 300 credit unions with assets of more than $1 billion and seven credit unions with assets of more than $10 billion, the largest of which has more than $90 billion in assets, dwarfing the size of the community banks with which they compete.
- The largest credit unions are experiencing the fastest growth. As noted in the American Banker series, “The nation’s largest credit union, Navy Federal in Vienna, Va., built its assets by 93% between 2012 and 2017.”
- Credit unions acquisition of community banks is becoming more common. Four such deals were completed in 2016 and six in 2017. Thus far in 2018, four community banks have agreed to be purchased by credit unions.[vii] NCUA has made it nearly impossible for banks to purchase credit unions or for credit unions to convert to banks. Absent a change in credit unions’ tax status, the trend of credit union acquisition of banks is sure to strengthen in future years.
- The trends identified above have exacerbated the cost of the credit union tax subsidy. According to the Joint Committee on Taxation, the cost of the subsidy currently stands at $2.9 billion a year. This does not include the cost of the subsidy to state governments, many of which are struggling to fund essential services such as education, public safety, and infrastructure.

We urge Congress to restore balance to the American financial services marketplace and help close a growing budget deficit by re-examining the outmoded credit union tax subsidy.

[i] Reosti, John. “Do credit unions still warrant a tax exemption?” American Banker, April 23, 2018. https://www.americanbanker.com/news/do-credit-unions-still-warrant-a-tax-exemption

[ii] Reosti, John. “Credit unions vs. banks: How we got here.” American Banker, April 24, 2018. https://www.americanbanker.com/news/credit-unions-vs-banks-how-we-got-here

[iii] Wack, Kevin. “Imaging a world where credit unions pay income taxes.” American Banker, April 25, 2018. https://www.americanbanker.com/news/imagining-a-world-in-which-credit-unions-pay-income-taxes

[iv] Reosti. “Credit unions vs. banks: How we got here.”

[v] Ibid.

[vi] Ibid.

[vii] Stewart, Jackie. “Credit unions are buying more banks. Get used to it.” American Banker, April 9, 2018. https://www.americanbanker.com/news/credit-unions-are-buying-more-banks-get-used-to-it