



2019  **CAPITAL SUMMIT** 

END CREDIT UNION AND FARM CREDIT SYSTEM TAX SUBSIDIES & BLOCK EXPANSION EFFORTS

CREDIT UNION TAX SUBSIDY HAS OUTLIVED ANY JUSTIFICATION

Federal credit unions are exempt from federal, state, and local taxes. The federal-tax subsidy alone has been valued by the Office of Management and Budget at nearly \$3 billion annually and rising.

A relic of the Depression era, the credit union tax exemption was originally conditioned on a narrowly defined mission: **servicing consumers of modest means with a common bond** such as an employer, church or trade union. While many of today's credit unions adhere to this model, other are "stealth banks" – multi-billion dollar financial centers with broad commercial-lending powers and no effective check on their fields of membership. They fund shopping malls, real-estate developments, and other commercial ventures. They seek naming rights to large sports stadiums, state fairgrounds, performing arts centers and other expensive public venues rather than serving members of "modest means."

Credit unions are equivalent to banks and should be taxed like banks. Alternatively, new tax credits or deductions should be created for community-bank lending to low- and moderate-income individuals, businesses, and farmers and ranchers. Independent studies show that community banks do a better job of serving low- and moderate-income customers than do credit unions.

NEW, PERMISSIVE RULES WILL FURTHER TRANSFORM CREDIT UNIONS

The National Credit Union Administration (NCUA) has issued a series of new rules that will broadly expand credit union powers and authorities, nearly erasing any difference between credit unions and tax-paying, commercial banks.

- A 2016 NCUA rule significantly expands credit union commercial lending powers by excluding certain commercial loans or loan participations from the member business lending cap. ICBA believes this rule exceeds the NCUA's statutory authority.
- Another final NCUA rule lifts many field-of-membership restrictions, expanding the reach of tax-exempt credit unions beyond their statutory limits. A follow-up proposal would expand the population limit for community credit unions from 2.5 million to 10 million, flouting the statutory mandate that community credit unions serve only well-defined, local communities or neighborhoods.
- The NCUA is also considering a proposal that would allow credit unions to issue "alternative" capital instruments to outside investors, undermining the cooperative form of ownership that underpins their tax exemption.

The NCUA has thwarted the intent of Congress. For years, Congress has debated these issues and decided not to make these changes. The NCUA's actions will transform credit unions and cause irreparable harm to community banks, and their customers and communities. Enough is enough!

The NCUA is an industry advocate and cheerleader, not a regulator.





FARM CREDIT SYSTEM CHARTERED BY CONGRESS FOR A NARROW PURPOSE

The Farm Credit System (FCS) is a government sponsored enterprise (GSE) chartered by Congress primarily to serve bona fide farmers and ranchers and a narrow group of farm-related businesses that provide on-farm services. FCS lenders leverage their tax and funding advantages as government sponsored enterprises (GSEs) to siphon the best loans away from community banks and disrupt rural communities. The FCS is the only GSE that competes directly against private sector, tax-paying lenders at the retail level. FCS was chartered by Congress with a narrowly defined mission in exchange for its GSE tax and funding advantages.

However, in recent years FCS has sought numerous non-farm lending powers to compete directly with commercial banks for non-farm customers.

FARM CREDIT REGULATOR FLOUTING CONGRESSIONAL AUTHORIZATION

FCS's compliant regulator, the FCA, has also sought to expand FCS activities through regulatory initiatives such as "investment bonds" and the "Rural Community Investments" regulation finalized in 2018. These initiatives provide authority for non-farm lending under the guise of "investments," though such lending goes beyond the constraints of the Farm Credit Act. Additionally, the Farm Credit Council has proposed replacing the FCA's approval of these "investments" with blanket FCS authority to finance any investment. ICBA opposes the Farm Credit Council's proposal.

Additionally, FCS has misused its "similar entity" authority to lend to the world's largest corporations headquartered in urban, not rural, areas, including CyrusOne, Verizon, Vodafone, U.S. Cellular, Constellation Brands, AT&T, and Frontier. This authority should focus exclusively on rural America.

Recent proposals to allow the FCS to become the equivalent of rural commercial banks would devastate thousands of rural community banks that serve rural and remote areas of the U.S. Such proposals are another FCS-initiated effort to utilize GSE tax and funding advantages to expand beyond statutory lending constraints, ignore FCS's GSE mission of serving actual farmers and ranchers, and dramatically increase FCS institutions' profits at the expense of the private sector.

MESSAGE FOR YOUR MEMBERS OF CONGRESS

- Oppose expanded powers for tax-subsidized credit unions.
- Support repeal of the credit union tax subsidy or enact tax relief for community banks.
- The FCS should return to its primary mission of serving bona-fide farmers and ranchers. FCS investments must be limited to comply with the Farm Credit Act's lending authorities. Oppose expanded infrastructure lending for FCS institutions.
- Enact comparable tax relief for community banks as envisioned in H.R. 1872, the Enhancing Credit Opportunities for Rural America (ECORA) Act.

REFORM AND REFOCUS THE FARM CREDIT SYSTEM

Congress should, among other actions, reform and refocus the FCS by equalizing tax treatment between community banks and FCS lenders; prohibiting FCS non-farm lending including "similar entity" and other types of loans to large corporations; prohibiting FCS predatory, below-market pricing of loans; and enforcing prohibitions against FCS deposit-taking schemes.

