



## ICBA Guide to Meeting with Credit Unions during CUNA's Government Affairs Conference

As tax-exempt credit union members “Hike the Hill” for Credit Union National Association’s (CUNA’s) Government Affairs Conference, below are some questions you may wish to raise when they visit your office.

### Issue: Recent Spike in Credit Union Acquisitions of Banks

In recent years, there has been a spike in tax-exempt credit union acquisitions of taxpaying banks, effectively “weaponizing” the credit union tax exemption and remaking the financial services landscape. While these acquisitions were uncommon just a few years ago, there were 9 deals in 2018, surging to 21 in 2019, with every indication that the trend will only strengthen, fueled by a generous tax subsidy and enabled by a permissive regulator.<sup>1</sup> Bank acquisitions of credit unions, on the other hand, are almost unheard of due to regulatory hurdles the NCUA has created for such transactions.

### Question for Credit Union Attendees:

- In your view, is the recent spike in credit union purchases of banks likely to continue or even strengthen in the coming years?
- Are these truly free-market transactions? A credit union is tax-exempt; a bank is taxed. Doesn't that give you an advantage?
- Do you think that these transactions are true to your mission or the purpose of your tax exemption?
- Do you plan on using your tax exemption to target and acquire a taxpaying community bank?

### Issue: The Credit Union Mission to Serve “People of Modest Means”

Credit unions were created and granted a substantial tax exemption to serve “people of modest means” by providing credit for “provident purposes.” However, fewer than 10 percent of credit unions are physically located in an economically distressed area and only 13 percent are in low- and moderate-income (LMI) areas.

<sup>1</sup> See WSJ article, “Credit Unions go on Bank Buying Spree,” Sept 2019

**Question for Credit Union Attendees:**

- Is your credit union located in a low- and moderate-income area? Can you tell me what percentage of your customer base is LMI?
- Does NCUA assess how many LMI customers are served by credit unions, as GAO has recommended? Should they?

**Issue: PenFed's Partnership with Goldman Sachs**

Pentagon Federal Credit Union recently announced a partnership with Goldman Sachs to finance luxury mixed-use developments in Washington, D.C. with an \$847 million loan to develop Phase II of the DC Wharf.

**Question for Credit Union Attendees:**

- Is it appropriate for a tax-exempt credit union to participate with investment firms like Goldman Sachs to finance multi-million-dollar properties?
- How is PenFed's participation in this project serving people of modest means?
- How does this project serve PenFed's Field of Membership?

**Issue: Proposed Use of Subordinated Debt to Fuel Hyper Growth**

The National Credit Union Administration (NCUA) recently proposed a rule to allow the largest and most complex tax-exempt credit unions to issue subordinated debt as an alternative form of capital. Credit unions have always been funded by member deposits and retained earnings. Subordinated debt is outside capital from investors that will change their cooperative nature, which is fundamental to their tax exemption. What's more, credit union growth in both deposits and assets is already more rapid than bank growth. Why is subordinated debt needed now to supercharge yet more growth?

**Question for Credit Union Attendees:**

- If the NCUA approves this rule, will you issue subordinated debt? If so, for what purpose?
- Would it be appropriate for a credit union to use subordinated debt to purchase a bank?
- Would issuing subordinated debt to wealthy individuals or institutions threaten the cooperative or mutually owned model of credit unions?
- Should outside investor firms be able to take advantage of the substantial tax exemption offered to credit unions to earn outsized returns?