ICBA
INDEPENDENT COMMUNITY BANKERS of AMERICA®

May 14, 2015

The Honorable Orrin Hatch
Chairman
Senate Finance Committee
Washington, DC 20515

The Honorable Paul Ryan
Chairman
House Ways and Means Committee
Washington, DC 20515

The Honorable Ron Wyden
Ranking Member
Senate Finance Committee
Washington, DC 20510

The Honorable Sander Levin
Ranking Member
House Ways and Means Committee
Washington, DC 20510

Dear Chairman Hatch, Ranking Member Wyden, Chairman Ryan and Ranking Member Levin:

On behalf of the more than 6,000 community banks represented by ICBA, thank you for your thoughtful and deliberative approach to reforming the nation's federal tax code. Done properly, tax reform could position the United States for an era of economic prosperity.

As your committees continue to research and investigate ways to broaden the tax base, we encourage you to review federal tax subsidies given to credit unions and the Farm Credit System (FCS). These subsidies represent a significant, unwarranted and outmoded tax expenditure.

Credit unions were originally granted a tax exemption because they were chartered to serve individuals of modest means with a common bond among them. Today, they no longer serve people of modest means (some studies have found that community banks do so more effectively) and the common bond has become meaningless with geographic charters, multi-bond credit unions and other developments that have resulted in wide-open membership requirements. Today's credit unions are virtually indistinguishable from taxpaying banks. There are 229 credit unions that have more than $1 billion in assets[1]. These 229 credit unions are larger than 89 percent of all banks.

The credit union tax subsidy comes at a significant cost to the taxpayer. A 2005 study by the independent Tax Foundation approximated the cost at $31.3 billion over ten years, a significant amount of revenue in the context of base-broadening tax reform, the funding of needed infrastructure projects, or deficit reduction.

The FCS has continued to grow rapidly, doubling their loan volume in the past decade, and now has $282 billion in assets. With over $4.7 billion in net profits in 2014, the FCS paid only $220

[1] NCUA call report data

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million in taxes, an effective tax rate of 4.5 percent. Many of the associations of the FCS are large, multi-billion dollar entities that compete with much smaller community banks. The FCS regulator, the Farm Credit Administration (FCA), recently issued guidance that allows FCS lenders to make non-farm loans provided they are labeled “investments.” The FCA has refused to answer basic questions about this guidance. The FCS’s GSE status allows them to access funds from Wall Street at a subsidized rate only slightly above the Treasury’s cost of borrowing. There is no policy rationale for continuing tax exemptions for mature, profitable multi-billion dollar entities that compete with community banks offering the same or similar products and services to the same customers.

As the tax reform process continues to gain momentum, **I encourage your Committees to hold hearings to review the generous tax subsidies granted to credit unions and the Farm Credit System.** ICBA would be more than happy to assist with research, data or other background material in the event of such a hearing. We would also be willing to provide a witness who could describe the tax subsidies’ distortionary impact on the market for financial services.

We look forward to working with you to reform the tax code and advance equitable, and pro-growth fiscal policies.

Sincerely,

/s/

Camden R. Fine
President & CEO

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