# Credit Unions

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**The credit union industry has changed dramatically.**

- Credit unions are now a $1.5 trillion industry.
- Credit unions today compete for the same business and offer the same products as community banks.
- There are now 327 credit unions with more than $1 billion in assets. These large credit unions are bigger than 87 percent of America's community banks.
- The large, diversified credit unions have strayed from their traditional mission of serving people of modest means, and compete head-on with thousands of community banks that are much smaller.
- A study by the Government Accountability Office found that industry consolidation has resulted in two distinct groups of credit unions – large credit unions that offer a wide array of bank-like products and small, traditional credit unions that provide more fundamental financial services.

**Credit unions want it both ways: expanding powers while maintaining their tax exemption.**

- When lawmakers passed tax reform at the end of 2017, they missed an opportunity to reform the outdated, unfair and unreasonable tax advantages enjoyed by credit unions and the Farm Credit System. Congress should treat businesses providing the same services the same way, and that is not happening today. In addition, regulated financial institutions should be regulated the same way, which does not occur at the hands of the "kid glove" regulator, the National Credit Union Administration (NCUA). We will continue to argue for a level playing field until Congress ends this inequity, and credit unions are regulated the same way as the banks against whom they compete.
- To protect their special privileges, some huge financial institutions are masquerading as traditional credit unions yet are essentially banks.
- The average American family pays more in taxes than the entire $1.5 trillion credit union industry.
- As credit union membership expands, so does the cost to American taxpayers, who underwrite the credit union industry's tax subsidy to the tune of more than $2.4 billion a year.[1]
- Congress has removed other financial cooperatives' tax exemptions after they outgrew their mission. For instance, after concluding in 1951 that mutual savings banks were in "active competition" with taxable institutions, Congress removed the mutual banks' tax exemption.
- Tax exemptions encourage or reward certain behavior—such as serving people of modest means. Why do large, expansive credit unions continue to be rewarded for behavior they no longer exhibit?
- A November 2017 survey conducted by Morning Consult for ABA found that American voters overwhelmingly are unaware that credit unions pay no federal income taxes, and when told about it, more than half would support a tax reform plan that eliminates the credit union tax exemption to limit deficit increases. Eighty-Five percent of American voters did not know whether credit unions pay taxes or mistakenly believed they do. Fifty-one percent of

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voters said they would support eliminating the credit union tax exemption if it helped minimize the impact of tax reform on the deficit. Fifty-six percent of voters agreed that it is inappropriate for credit unions to use their tax exemption to buy multimillion-dollar sports sponsorships.

**Many credit unions are no longer fulfilling their mission of serving people of modest means.**

- Research released in June 2019 from Federal Financial Analytics found that credit unions are falling short of their mission to serve households of "small means." In fact, credit union members are disproportionately from middle- and upper-income households, and credit unions' lack of "mission compliance" deepens U.S. economic inequality. The report found that NCUA maintains no data on credit unions' effectiveness at providing financial services to people of "small means," and that its definition of "low-income" is far more expansive than that used by other federal agencies. As a result, designated low-income credit unions simply replace community bank credit instead of providing new credit.
- Credit unions have special federal privileges, such as a tax exemption, because of their legal mandate to serve people of modest means. With these special privileges come limitations, such as business lending and field of membership restrictions. If these credit unions no longer merit these privileges, they should be required to convert to a bank.
- GAO reported 31 percent of households using credit unions had low or moderate incomes, compared with 41 percent of households using banks.
- Some credit unions now serve entire states, yet they aren't required to reinvest in their communities. America's third largest credit union, PenFed, can literally serve any man, woman, or child in the United States with no membership restrictions at all.
- A National Community Reinvestment Coalition study found banks outperformed credit unions in serving people of modest means. The consumer group specifically called for Congress to apply Community Reinvestment Act rules that require banks to lend back to their communities – to large credit unions.
- According to 2017 HMDA data, less than 6.3 percent of credit union mortgages went to low-income borrowers.

**Credit unions are increasingly buying banks in an effort to expand.**

- At least 40 banks have been acquired by credit unions since 2012, removing taxpayers from the rolls at the federal, state, and local levels.
- Credit union/bank transactions are essentially corporate inversions without leaving the country. The tax advantage essentially becomes leverage to finance these deals, given a dollar of future earnings is worth more to entities that will not pay taxes on them. In addition, credit unions are able to record the resulting goodwill on their balance sheets as fictitious capital, enabling them to outbid banks.
- Ultimately, local communities lose in these deals when the tax base is eroded.

**Credit unions should be allowed to convert to mutual savings institutions.**

 

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- Changing charters can be an effective way for a credit union to adjust to individual market conditions and the needs of its members.
- Many credit unions recognize there are – and should be – limits to what a tax exempt organization can do. When choosing the mutual charter, credit unions are preserving mutual ownership for their members while expanding the opportunity to serve their communities.
- The National Credit Union Administration continually puts up roadblocks when credit unions want to become mutual savings banks. This clearly violates the intent of Congress when it required that conversion rules should be "no less restrictive" than banking regulations. In all other financial institution charter transfers, only the future regulator has a say in the matter.

**Background:**
The 1934 law establishing the federal credit union charter stated its purpose was "to make more available to people of small means credit for provident purposes through a national system of cooperative credit." Once, members of a credit union knew each other and pooled their resources to provide credit for their co-workers and/or neighbors. Today, many credit unions have grown into highly profitable, billion-dollar institutions offering a full range of financial services–including insurance and securities brokerage–to just about anyone. These institutions look and act like banks, yet they do not pay taxes or abide by the same rules as banks.

The NCUA has steadily adopted policies that have expanded credit union membership beyond the limits prescribed by Congress. As credit union membership expands, so does the cost to American taxpayers, who underwrite the credit union industry's tax subsidy to the tune of more than 3.5 billion a year.

ABA has challenged NCUA's policies through comment letters and in court and will continue to make the case that similar institutions ought to be treated similarly.

*Sources:*

[1] *Joint Committee on Taxation*

[2] *Only 0.5% of Credit Unions Near the Current Business Lending Cap*
*https://www.aba.com/Advocacy/Issues/CUDocs/Only05ofCreditUnionsNeartheCurrentBusinessLendingC.pdf*