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The Honorable Kevin Brady
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Re: Setting the Record Straight on Credit Unions

Dear Chairman Brady:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the federal interests of our nation's federally-insured credit unions, I write today to set the record straight in response to attacks against credit unions made by the American Bankers Association (ABA) in a letter to you earlier today.

With the ever increasing regulatory burden on all financial institutions, we would have hoped that the ABA and their members would be more focused on working with their counterparts in the financial services industry to achieve meaningful regulatory relief that will allow all financial institutions to better serve consumers. Unfortunately, the ABA continues to put resources into these attacks that could be better dedicated to regulatory relief efforts. The fact remains that if ABA's members, the nation's largest banks, were more responsible to begin with, the financial crisis may not have reached such epic proportions and the kind of regulatory burden the entire industry faces today may not be a reality.

The numbers speak for themselves when you look at big bank fines and various settlements and buy-backs stemming from the financial crisis that total over $135 billion paid by big banks (including over $55 billion from Bank of America, $24 billion from JPMorgan Chase, $11 billion from Citigroup, $6 billion from Wells Fargo and $5 billion from Goldman Sachs, just to name a few). The ABA's attack is the height of arrogance when you realize that a majority of these fines and penalties *are tax deductions for the banks!* Analysis of these settlements has put the **tax break value of these fines at nearly $17 billion a year** over the last few years – over **10 times the 2015 tax expenditure estimate for credit unions** ($1.69 billion) in the President's annual budget request. If the ABA is serious about tackling the national debt and closing corporate tax loopholes, perhaps they should start with closing this Wall Street loophole that allows those big banks that harmed consumers to short-change the American taxpayer.

In the meantime, we want to be sure you know the facts about credit unions and our service to Main Street America. The fact is that the cumulative benefit credit unions provide the greater economy totals over $17 billion a year according to an independent study released by NAFCU in 2014. As the study also shows, altering the tax status of credit unions would have a devastating impact not only on credit union members across the country, but also on consumers and small businesses in general. Eliminating the credit union tax exemption would result in the loss of 150,000 jobs a year (nearly 11,000 of which are estimated to be lost in Texas), a shrinking of the GDP and a net *loss* of revenue to the federal government. You can read the study at: www.nafcu.org/cutaxexemption.

While the banking trades claim credit unions threaten the business done by other financial institutions, this is simply untrue. What they did not tell you is that a 2011 study commissioned by the Small Business Administration's (SBA) Office of Advocacy found that bank business lending was largely unaffected by changes in credit unions' business lending, and credit unions' business lending can actually help offset declines in bank business lending during a recession (James A. Wilcox, *The Increasing Importance of Credit Unions in Small Business Lending*, Small Business Research Summary, SBA Office of Advocacy, No. 387 (Sept. 2011)). The study indicates that during the 2007-2010 financial crisis, while banks' small business lending decreased, credit union business lending increased. Clearly, credit unions were making loans when banks did not want to.

The bankers continue to claim that credit unions have unfair advantages and should be taxed. If credit unions have such an extraordinary advantage, why aren't banks lining up to convert to credit unions? What the bankers do not tell you is that nearly 1/3 of banks are Subchapter S corporations and pay no corporate income tax. Many of these institutions are large and growing larger, such as Scottrade Bank in Missouri with over $15 billion in assets and MidFirst Bank in Oklahoma with over $11 billion in assets. There are now 75 Subchapter S banks with over $1 billion in assets, including Woodforest National Bank in The Woodlands, Texas.

Yes, these banks pay other taxes, but so do credit unions and their over 102 million member-owners who pay personal income taxes on the dividends they get from their credit union. Credit unions actually pay many taxes, such as property taxes, payroll taxes and state and local taxes. Next time a banker complains to you about credit unions, we would urge you to ask them if they have looked into converting to one.

Simply put, the tax exemption is an issue of survival for credit unions. Despite what the bankers claim, there remain significant regulatory and statutory differences between not-for-profit member-owned credit unions and other types of financial institutions – including limits on who they can serve and their ability to raise capital. Still, during the financial crisis credit unions continued to lend to consumers and small businesses that were left behind by our nation's mega-banks. Credit unions are proud of their continued service to Main Street America.

Thank you for the opportunity to set the record straight and for your strong continued support of credit unions. If I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact me or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,

B. Dan Berger
President and CEO

cc: Members of the House Ways and Means Committee
Members of the Senate Finance Committee