Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy

The National Association of Federally-Insured Credit Unions (NAFCU) commissioned a study to examine *what would happen to the U.S. economy if the presence of credit unions was reduced significantly as a result of eliminating the credit union tax exemption*. The authors of the study are Robert Feinberg, Ph.D., Professor of Economics at American University; and Douglas Meade, Ph.D., Director of Research at Interindustry Economic Research Fund, Inc.

Previous studies had demonstrated that changes to the credit union tax status in Canada and Australia led to a severe reduction in credit union presence. The resulting reduced competition for consumer financial services led to higher interest rates on consumer loans and lower interest rates on deposits for consumers in those countries. The results of the 2017 study indicate that similar impacts on consumers would be seen here in the United States should the credit union tax exemption be eliminated.

Key Findings

- Removing the credit union tax exemption would actually cost the federal government $38 billion in lost income tax revenue over the next 10 years. GDP would be reduced by $142 billion, and nearly 900,000 jobs would be lost over the course of next decade as well.
- As shown in Chart 1, credit unions outperformed banks, with lower interest rates on loans and higher returns on savings and deposits.
- The direct benefits to credit union members of these better loan and deposit rates were estimated to range from $4.4 billion to $6.9 billion annually for the period 2006-2015. (Chart 2)
- A 50 percent reduction in the credit union market share would cost bank customers an estimated $6.9 billion to $15.7 billion per year in higher loan rates and lower deposit rates. (Chart 2)
- Total credit union member benefits over the 2006-2015 period were estimated to be $56.7 billion.
- Bank customers benefitted from credit unions as well (due to the competition from credit unions) by an estimated $102.2 billion over the 2006-2015 period.
- Credit union members benefitted most from lower interest rates on car loans, with $31 billion in savings from 2006-2015.
- Bank customers benefitted most from lower rates on real estate loans, saving over $40 billion during the ten-year period of the study.
- The total benefit to U.S. consumers from the presence of credit unions in financial markets was $159 billion over the ten-year period of the study, or $16 billion per year.

Chart 1: Interest rate differences, credit unions vs. banks
percent difference, 2006-2015 average

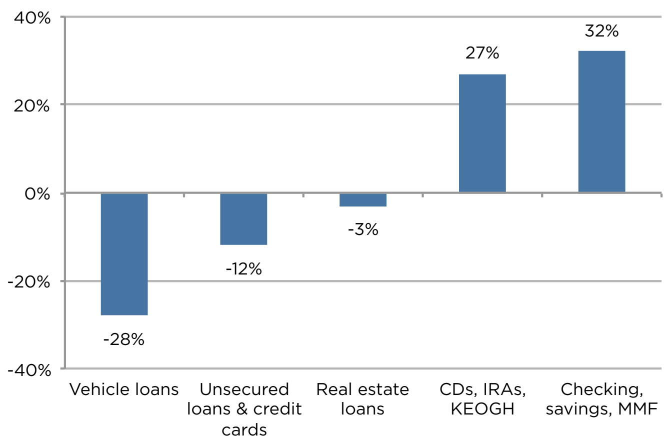

Chart 2: Credit unions & bank consumer benefits by year
2006-2015, billions $

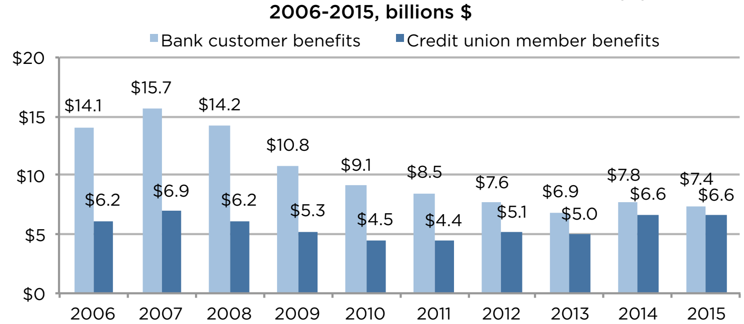

Chart 3: Credit union & bank consumer benefits by product
2006-2015 total, billions $

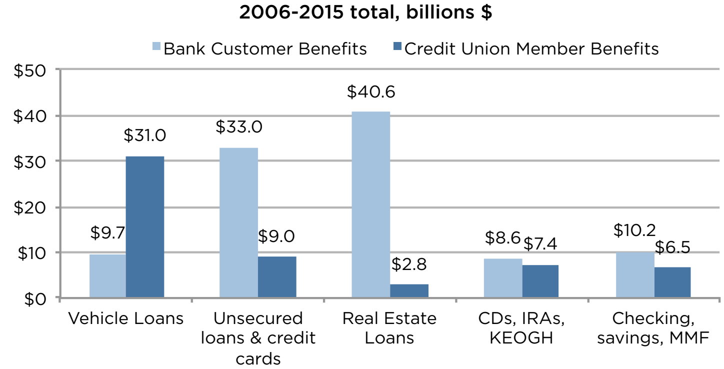

Table 1. Estimated benefits to credit union members and bank customers by state, 2006-2015

In order to examine these effects on a state-level basis, these gains were apportioned on the basis of each state's share of total credit union and bank deposits in 2015. Credit union and bank consumers from larger states received substantial gains from the presence of credit unions in their markets. The largest consumer benefits amounted to $18.8 billion in California, $16.8 billion in New York, $11.3 billion in Texas, $7.7 billion in Virginia, $7.4 billion in Florida, and $6.3 billion in Illinois.

Millions current $	Total consumer benefits 2006-15	Bank customer benefits 2006-15	CU member benefits 2006-15	Bank customer benefits 2015	CU member benefits 2015	State pctg of bank deposits 2015	State pctg of CU deposits 2015
U.S.	**$158,896**	**$102,172**	**$56,724**	**$7,428**	**$6,587**	**100%**	**100%**
Alabama	$1,847.6	$882.3	$965.2	$64.2	$112.1	0.9%	1.7%
Alaska	$560.5	$110.8	$449.7	$8.1	$52.2	0.1%	0.8%
Arizona	$1,759.7	$1,019.2	$740.5	$74.1	$86.0	1.0%	1.3%
Arkansas	$709.3	$586.4	$122.9	$42.6	$14.3	0.6%	0.2%
California	$18,750.2	$11,204.8	$7,545.4	$814.6	$876.2	11.0%	13.3%
Colorado	$2,108.7	$1,126.3	$982.4	$81.9	$114.1	1.1%	1.7%
Connecticut	$1,637.0	$1,161.8	$475.3	$84.5	$55.2	1.1%	0.8%
Delaware	$3,430.0	$3,324.7	$105.3	$241.7	$12.2	3.3%	0.2%
Dist. of Col.	$828.2	$435.4	$392.8	$31.7	$45.6	0.4%	0.7%
Florida	$7,438.3	$4,852.9	$2,585.4	$352.8	$300.2	4.7%	4.6%
Georgia	$3,066.8	$2,058.0	$1,008.8	$149.6	$117.1	2.0%	1.8%
Hawaii	$870.6	$370.6	$500.0	$26.9	$58.1	0.4%	0.9%
Idaho	$527.0	$210.1	$316.9	$15.3	$36.8	0.2%	0.6%
Illinois	$6,292.2	$4,490.9	$1,801.4	$326.5	$209.2	4.4%	3.2%
Indiana	$2,091.7	$1,094.2	$997.4	$79.6	$115.8	1.1%	1.8%
Iowa	$1,409.3	$755.5	$653.8	$54.9	$75.9	0.7%	1.2%
Kansas	$937.4	$657.7	$279.7	$47.8	$32.5	0.6%	0.5%
Kentucky	$1,107.1	$721.1	$386.0	$52.4	$44.8	0.7%	0.7%
Louisiana	$1,440.0	$943.9	$496.0	$68.6	$57.6	0.9%	0.9%
Maine	$563.8	$240.5	$323.3	$17.5	$37.5	0.2%	0.6%
Maryland	$2,282.8	$1,265.3	$1,017.5	$92.0	$118.2	1.2%	1.8%
Massachusetts	$5,099.6	$3,584.1	$1,515.5	$260.6	$176.0	3.5%	2.7%
Michigan	$4,312.4	$1,838.5	$2,473.8	$133.7	$287.3	1.8%	4.4%
Minnesota	$3,032.5	$2,056.1	$976.4	$149.5	$113.4	2.0%	1.7%
Mississippi	$721.0	$478.3	$242.8	$34.8	$28.2	0.5%	0.4%
Missouri	$2,154.1	$1,516.4	$637.7	$110.2	$74.1	1.5%	1.1%
Montana	$431.6	$206.0	$225.6	$15.0	$26.2	0.2%	0.4%
Nebraska	$776.7	$582.7	$194.0	$42.4	$22.5	0.6%	0.3%
Nevada	$1,734.0	$1,633.5	$100.5	$118.8	$11.7	1.6%	0.2%
New Hampshire	$619.3	$301.8	$317.5	$21.9	$36.9	0.3%	0.6%
New Jersey	$3,544.9	$2,919.0	$625.8	$212.2	$72.7	2.9%	1.1%
New Mexico	$759.8	$291.0	$468.8	$21.2	$54.4	0.3%	0.8%
New York	$16,775.4	$13,361.4	$3,414.0	$971.4	$396.5	13.1%	6.0%
North Carolina	$5,739.8	$3,409.6	$2,330.2	$247.9	$270.6	3.3%	4.1%
North Dakota	$407.3	$249.6	$157.8	$18.1	$18.3	0.2%	0.3%
Ohio	$3,986.6	$2,846.9	$1,139.6	$207.0	$132.3	2.8%	2.0%
Oklahoma	$1,437.3	$801.7	$635.6	$58.3	$73.8	0.8%	1.1%
Oregon	$1,549.6	$634.3	$915.3	$46.1	$106.3	0.6%	1.6%
Pennsylvania	$5,441.8	$3,438.2	$2,003.6	$250.0	$232.7	3.4%	3.5%
Rhode Island	$514.4	$270.4	$244.0	$19.7	$28.3	0.3%	0.4%
South Carolina	$1,290.3	$724.7	$565.5	$52.7	$65.7	0.7%	1.0%
South Dakota	$4,489.9	$4,346.9	$143.0	$316.0	$16.6	4.3%	0.3%
Tennessee	$2,236.2	$1,267.8	$968.4	$92.2	$112.5	1.2%	1.7%
Texas	$11,307.7	$7,044.9	$4,262.8	$512.2	$495.0	6.9%	7.5%
Utah	$5,906.9	$4,974.4	$932.5	$361.7	$108.3	4.9%	1.6%
Vermont	$300.9	$116.7	$184.2	$8.5	$21.4	0.1%	0.3%
Virginia	$7,703.5	$2,658.8	$5,044.7	$193.3	$585.8	2.6%	8.9%
Washington	$3,411.4	$1,304.2	$2,107.2	$94.8	$244.7	1.3%	3.7%
West Virginia	$472.8	$305.7	$167.1	$22.2	$19.4	0.3%	0.3%
Wisconsin	$2,810.5	$1,353.4	$1,457.1	$98.4	$169.2	1.3%	2.6%
Wyoming	$269.8	$143.0	$126.8	$10.4	$14.7	0.1%	0.2%

Source: NCUA 5300 call report data and FDIC Summary of Deposits

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